Ontario and Canada

A Strategic Perspective

Proceedings from a February, 1981, conference held in Toronto.
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FINANCIAL POST CONFERENCES in association with AIR CANADA

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The text of speeches delivered in Toronto, February 25 and 26 at a Financial Post Conference. Speakers from business, labor, government and the academic world examined Ontario's current economic position, with a view to the future. This booklet was published by the Ontario Ministry of Industry and Tourism.

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The Steel Industry in Canada

John D. Allan

John Allan is president and chief operating officer of Stelco Inc., Toronto. He joined Stelco as a trainee in 1947 after graduating from the University of British Columbia. Mr. Allan held various positions before being named executive vice-president in 1974. He was elected a director in 1975 and president in 1976 and assumed his present responsibilities in 1980.

Ontario has long been the industrial and manufacturing heartland of Canada. Other parts of Canada have been and continue to be concerned about the degree to which industrial development has tended to centre in this particular province and, of course, the wealth, prosperity, and power such development has brought in its wake. Yet, to a considerable degree, this state of affairs has come about largely as the result of the influence wielded by external forces. The geo-economic pull on the North American continent is north to south rather than east to west.

Consequently, when the overwhelming preponderance of the vast waves of immigrants that poured into the United States from the mid-19th century on chose to settle in the northeastern and midwestern regions of that country, it was in those areas that major industrial and commercial development took place and the die was thus cast for Ontario, or more accurately southern Ontario, to become the industrial and manufacturing centre of Canada.

It is important to bear this historical precedent in mind when it comes to assessing what many perceive to be the significant erosion of Ontario's industrial and manufacturing base that has taken place in recent years. One aspect of this concern is a feeling that the centre of economic gravity in Canada is beginning to shift westward to take advantage of the energy-based boom in that particular region of our nation. While there is undoubtedly a flow of investment capital from central to western Canada, my own feeling is that it constitutes primarily an extension to rather than being to the detriment of manufacturing activity in Ontario. The principal factor in the viability of any industrial or manufacturing enterprise is not proximity to raw materials but rather proximity to major markets, and Ontario still represents the major consuming market of Canada.

An infinitely more serious threat to Ontario's industrial and manufacturing base would come about were significant segments of its manufacturing industry to become, for one reason or another, uncompetitive in terms of price, product quality, or design with comparable goods from abroad. There is clear evidence to indicate that such trends are already under way in certain areas of manufacturing endeavor and should these trends intensify and become general throughout the manufacturing sector you are liable to see the major movements of investment capital and population that constitute the primary factors in the redistribution of manufacturing capacity from one area of a country to another. The same holds true, of course, for industry anywhere in Canada and where such trends are national in scope then the exodus of investment capital is not from one region of the country to another but rather to more favorable climes abroad.

This is precisely what is happening in the oil and gas industry where, as a result of federal-provincial conflict over pricing and revenue distribution and the federal government's national energy program, there has been a significant movement of investment capital, exploration activity, and some skilled personnel to the United States.

I would like to offer, from the vantage point of the steel industry, a few comments on the Ontario economy, the problems and challenges it faces, and its relationship to the rest of Canada. The Canadian steel industry is primarily Ontario-based inasmuch as the nation's three leading integrated producers, the country's sole producer of stainless steel, and several mini-mills are all located within the borders of this province. I might add here, however, that Stelco also has both steelmaking and steel finishing facilities in Alberta and Quebec together with a fabricating operation in Saskatchewan. The industry is very much a world-class institution with an international reputation for technological leadership, efficiency, and competitiveness, and which, so far, has been able to avoid the wholesale closing down of capacity and massive layoffs that have been the unhappy lot of steelmakers elsewhere in the world.

It was important for the growth of manufacturing in Ontario and Canada after World War II that a basic industry such as steel prospered and expanded. The challenge was accepted by the steel industry and today Ontario has four well-located, world-scale, integrated steel plants designed for six million tons each or more, which can back up the domestic demand for steel as well as make Canada a net exporter of steel products. The principal reason behind this successful growth is that the industry has always been profitable — or at least the private enterprise segment of it has — and it has poured hundreds of millions of dollars of these profits into equipping a skilled work force with some of the most advanced and sophisticated process technology in the world.

It has been profitable because it has consistently been able to keep its facilities fully loaded, and one factor in this has been the degree of success the industry has had in closely matching capacity expansion with domestic market growth. In fact, it has traditionally tended to lag behind such growth and, while this has sometimes resulted in missing out on business during periods of market upturn, the other side of the coin is that it has also managed to avoid the spectre of having huge segments of expensive capacity sitting idle during periods of market downturn.

Canadian steelmakers are now making a major contribution to the growth of exports of steel-intensive manufactured products through the ability to supply their customers with high quality products at stable and very competitive prices. Such is also assisting in attracting new secondary manufacturing facilities to Ontario and Canada.

Although we have traditionally concentrated on serving the domestic market, this does not mean that Canadian steelmakers have totally ignored the export market directly. Stelco, for example, has an export sales department and marketing subsidiaries in Argentina, Brazil, Venezuela, Switzerland, and the United Kingdom. We export about 15 per cent of our production, mainly to the United States and primarily to long-

term customers. During the past year, when some of its traditional markets such as the automotive and agricultural implement sectors were experiencing a severe slump in business, the steel industry, because of its competitiveness, was able to pick up significant additional export business, thereby enabling it to keep its facilities loaded and its work force relatively intact.

Let me comment on a few more areas that our industry has concentrated on so that the users of our products are deriving full measure from steel as a basic material.

First, there has been a concerted effort to cooperate with our customers in developing new grades of steel, new steel products, and new designs utilizing steel more efficiently in order that the marketplace can be better served. High-strength steels, lighter-weight steels for the automobile and construction industries, Arctic-grade pipe for the transmission of oil and gas from our frontier regions, prepainted steel siding for buildings, tin-free steel for the can industry all come to mind.

Second, the Canadian steel industry has long been oriented toward applied research with particular emphasis being laid on the development of cost control technology. One of the most recent examples of this approach is the development by Stelco of a water-cooled electrode that has significantly reduced the cost of operating electric-arc steelmaking furnaces. We are essentially committed toward the pursuit of innovative efficiency, and by that I simply mean seeking to integrate the mechanical approach to efficiency with the conceptual creativity of innovation to bring about technological developments that confer a multiplicity of benefits. As an example, the new Stelco Coilbox was developed mainly to cut the capital cost of constructing hot strip mills. Yet this device has also resulted in improved yield and superior product quality and has also significantly reduced the amount of electrical energy formerly required to operate hot strip facilities.

Third, internal employee training programs have been emphasized in order to perpetuate the skills so critical and vital to a capital-intensive industry such as steel. There was a time when brawn was the primary prerequisite for working in a steel plant, but the growing sophistication and complexity of steel-process technology has brought about a need for a similar orientation on the part of its operating personnel.

We currently have 1,100 individuals enrolled in our apprentice and assigned maintenance training program at our Hilton Works basic steel plant in Hamilton, and at any given time approximately 10 per cent of our work force is engaged in this form of endeavor. We have an additional 105 employees undergoing apprentice and assigned maintenance training at our huge new Lake Erie Works at Nanticoke, most of whom are young people from the surrounding rural communities. It is a source of distinct pride to all of us at Stelco that our employee training programs have been described as among the best of any in North America.

There is no question in my mind that the largest single factor in the future prosperity of the Canadian steel industry, Ontario manufacturing, and indeed of the entire Canadian economy will evolve around the aggressive development of our bountiful national energy resources. To give you some idea of the importance of energy development to the steel industry, the amount of steel required to construct all oil and gas energy developments currently on the drawing boards or being contemplated comes to a staggering 17.3 million tons. To this must be added the immense amount of spin-off activity such development will generate in the secondary manufacturing and service sectors of the economy.

Perhaps most important of all, achieving our national goal of oil self-sufficiency will enable us to avoid the catastrophic budgetary and balance-of-payments consequences inherent to relying to an ever-increasing extent on imported oil from regions of the world that have never been noted for their political stability. The federal government's national energy policy should be the economic unifier of this country. Unfortunately, so far it has had the opposite effect.

It is important that Ontario make every effort to see that the quest for oil self-sufficiency be accelerated without gaps and peaks, and on a broad front — the western basin, the tar sands and heavy oil projects, Beaufort Sea and Hibernia developments — for through such an effort maximum economic benefit can accrue to the citizens of this province.

Since most of this energy development will take place in the western, eastern, and northern regions of our nation, there will undoubtedly be some degree of resentment over the fact that so many of the basic and secondary products required to bring these developments on stream will not be manufactured locally.

The first point that should be made here is that vigorous and sustained resource-based growth usually, in time, brings the demographic changes that make the establishment of secondary and service industry a viable undertaking. The important thing is that Canada as a whole has the basic and secondary manufacturing infrastructure needed to supply the quality products at competitive prices that are needed to make this energy potential a reality.

Although Ontario does not have hydrocarbon deposits, it certainly does not need to feel left out of the overall energy picture. The province is a major producer of electric power, it is the centre of the world-recognized Canadian nuclear industry, and it is very much involved in research designed to develop the technology required for the utilization of hydrogen as a fuel. It could well be that, as other regions of our country develop, Ontario might have to surrender some of the overwhelming manufacturing and industrial pre-eminence it enjoys today. Nevertheless, provided the province is able to maintain and, where necessary, enhance the competitiveness of its manufacturing infrastructure, there seems little doubt that it will continue to play a pivotal role in the functioning of what will hopefully be a viable and continuing united Canadian Confederation.

The Bruce Nuclear Power Development and Ontario's Industrial Future

Donald E. Anderson

Donald Anderson is project manager, Bruce Nuclear Power Development, Ontario Hydro, Toronto. After completing post-graduate studies in engineering physics at Manchester University in 1961, he worked in the British Civilian Atomic Program until 1963 when he came to Canada and joined Ontario Hydro. Mr. Anderson was appointed group manager, design and development division at Ontario Hydro in 1979 and assumed his present position in 1980.

I seem to have spent a lot more of my time in the past few years engaged in nuclear and environmental debates. In our organization it's called "other duties as required" in the executive job descriptions. It's tough to keep your head down when you're operating in a goldfish bowl, but it also gives you an opportunity to view the world from all angles. There are some angles on energy, and particularly nuclear energy, that are new and that I find very exciting.

The Bruce Nuclear Power Development plays an important role in the industrial future of Ontario.

Bruce is a 2,300 acre mega-project, worth roughly $7 billion with a weekly payroll of $5 million and a combined permanent and temporary work force of about 7,000.

When it's completed in the mid-1980s it will be the largest nuclear power complex in the world. Bruce complex is equivalent to the Syncrude project and the proposed Alsands project combined.

Bruce is a massive, important energy project for Ontario. It's a showcase — and I've got to admit I'm pretty proud to be part of it — but it's also a workhorse. Apart from water power, it's the securest, safest, cleanest, most economical method of large-scale electricity production available in this province today.

Nuclear combines a fuel found in abundance here in Ontario with the most successful nuclear technology in the world — the Candu technology developed in Ontario.

I call it Ontario's energy ace-in-the-hole, and here's why.

Nuclear brings electricity to the power users of the province at a little more than half the price a coal-fired station could produce it. And both our Pickering and Bruce plants operate at an efficiency level that's the envy of the industry.

We have just recently received the statistics for 1980 performance of 114 of the world's largest reactors. Four of Ontario Hydro's eight reactors ranked first, second, third, and fourth in the world. All eight reactors at Pickering and Bruce ranked in the top 25 in the world for 1980.

That's what our Candu plants do day in and day out for the investment the Ontario people made.

They provide electricity at a reasonable price, with a safe and reliable technology that doesn't pollute the environment. That's why I call them workhorses.

But Ontario, specifically Ontario industry, can benefit even further from our Candu workhorses. In order to make electricity, our Candu plants produce steam to drive turbines and discharge warm water as a by-product to the lake.

Just as electricity is a versatile form of energy, so is steam. It can be used in all sorts of industrial applications including distilling, food manufacturing, the chemical industry, and for agricultural purposes.

Hydro is involved with a joint public-private consortium that wants to use energy from the Bruce generating station to heat a complex of greenhouses for agricultural production. Our involvement in this Agripark project does not mean that Hydro intends to get into the agricultural field, although many of the farmers I've been speaking with lately would point out that we seem pretty eager to jump into that field, with towers and transmission lines.

Our involvement would be to supply energy to the boundary of the station.

The Agripark would use the energy to heat a series of modular greenhouses connected to a shared pipe originating from the Bruce station.

As I mentioned earlier, there is industrial potential as well. The same consortium has optioned more than 2,000 acres of land adjacent to the Bruce complex for development of an industrial park. Large industrial users could draw on Bruce's steam capacity for their own energy needs.

Although I can't give final figures on the cost of steam because this is under negotiation, it will be substantially cheaper than natural-gas-derived steam. I can also say with some confidence that any increase in the price of the steam would be at a level well *below* the annual rate of inflation.

This would stabilize industry's energy cost in the long term and provide outstanding reliability and security of supply as well.

In these days of energy uncertainty in both supply and price, that's a pretty good incentive for industry.

There is lots of available land, about 10,000 acres, within a five-mile radius of the Bruce complex. There are well-established residential communities with excellent facilities in Kincardine and Port Elgin. Many of these have been enhanced by the development of the Bruce complex.

But there are also some drawbacks for industry locating at this site. There would probably be higher transportation costs associated with locating there and the lack of a nearby deep-water harbor may not suit some potential users of the steam.

However, I have little doubt that there will be a harbor there some day if enough industry locates in the area.

The people of Bruce county are understandably excited about seeing this industrial park take off and there is strong public support for these industrial initiatives. It would mean additional jobs in the area and a welcome boost to Ontario's manufacturing sector, which could profit from a secure, long-term supply of inexpensive energy.

The concept of using steam, whether it's for agricultural or industrial purposes, is a spinoff benefit from nuclear.

Those are some of the relatively short-term benefits and possibilities for nuclear-generated steam. But in the longer term, the potential may be even more exciting.

With the off-oil initiatives coming from the federal and provincial governments, the development of tech-

nology for producing alternative transportation fuels looks not too far down the road.

Nuclear-generated steam can play a large part in their development of other alternative fuels.

For instance, ethanol, an alcohol fuel, is already widely used as an alternative transportation fuel in Brazil and the United States. In fact, the United States has really jumped on the ethanol bandwagon.

Last year more than 3,000 retail outlets in the United States sold 250 million U.S. gallons of ethanol. By 1990, the United States expects to produce about 11 billion gallons a year, which will supply about 10 per cent of that country's projected gasoline consumption.

In Manitoba the government has offered incentives to a private company that plans to produce ethanol at an unused distillery. The company plans to produce fuel-grade ethanol from barley and other grain at a cost of about $2.50 a gallon. The ethanol will be blended with 90 per cent gasoline and sell at the gas pumps for the same price as regular gasoline. The price can be held in line because the provincial government will be waiving the sales tax on ethanol.

It could just be, however, that the price of ethanol would be more competitive if cheap, nuclear-generated steam were used for its production.

In Ontario, there is little surplus or spoiled grain available for ethanol production.

However, there is additional corn production capacity and also significant quantities of primary-food-processing wastes that could be converted. And much of the agricultural land around Bruce is used to grow feed-stock corn for beef cattle.

In the Bruce area, then, we have two components — cheap energy in the form of steam and corn production — that just may make an ethanol production plant an attractive venture.

So, there is a tremendous industrial potential in the Bruce area and a range of diversity for nuclear-generated steam. Although our primary purpose will always be to supply our electricity customers in this province with an inexpensive, clean, and reliable form of energy, our nuclear plants also have spin-off capabilities that could benefit industry and ultimately the people of Ontario.

The benefit to the people of Ontario would be a broader industrial base, which means more jobs and a boost to the economy.

It gives Ontario Hydro a better and more efficient utilization of its nuclear stations, which also benefits the people of Ontario.

In the future, it may also help Canada take a bite out of the imported oil deficit. Any dent we can make here, in this province, benefits Canadians generally.

Conservation and the effective use of our fossil-fuel resources are now dominant factors in meeting Ontario's over-all energy needs.

Substitution, such as using a nuclear energy resource in the form of steam, offers an immediate, cost-effective, and demonstrated alternative that makes good business sense for Ontario.

For more than 25 years nuclear power has been used safely for the production of electricity. Now that the days of cheap oil are gone forever, the time for diversification of this energy source has arrived.

Western Perspectives

S. Robert Blair

Bob Blair is president and chief executive officer of NOVA, an Alberta corporation, in Calgary. He received his degree in chemical engineering from Queen's University in 1951. Mr. Blair joined Alberta and Southern Gas Company Limited in 1959 and was appointed president in 1966. In December, 1969, he became executive vice-president of The Alberta Gas Trunk Line Company Limited, now NOVA Corp., and seven months later became president.

This is a country of workers. That was not a tribute just to organized labor, although organized labor has been productive and patient over-all. I mean more that this is still a country of working desire; rural, labor, management, and professional, across a wide front. Next only to freedoms of individual choice and protection under law, the Canadian desire that I hear most frequently is to work and to get the proper benefits of work. Maybe that desire can overcome admiration of argument as a national preoccupation. It fits with Canadian ownership of big business, getting off OPEC oil, balancing upward the federal revenues and similar desirable policies. It deserves more priority.

How well Toronto populates. In the Metro Toronto boundaries there are just one-twentieth of one percent of the acres in Ontario but 23 members of parliament, two more than Alberta. All of Ontario has one-eighth of Canada's acreage but 95 members and with that has been controlling which federal party can form the national government. On Bay Street they call it "leverage." How sweet it must have been!

I know, however, that power worries, and absolute power should worry Ontario absolutely, and I hope it does so. During a time while the federal Conservatives do not hold a seat in Quebec, nor the Liberals west of Winnipeg, so that Ontario determines the federal power for Canada as well as holding most of its financial wealth, does that not lay on Ontario at least temporarily the unusual responsibility to think carefully for the whole of Canada?

Ideally, that special federal clout should not be left as a preoccupation for Ontario. It would be better transferred across Canada through the federal parties becoming nationally representative again if they can manage that. It should only be a passing phase that Ontario is responsible for such federal clout and that political muscle responsibility for the rest of Canada has fallen on the provincial governments. Anyway, that is the present phase and needs some thought.

How else does the West see Ontario? Next most important is as the long-term main centre of manufacture and service industries in Canada. For every one of our "western" managed energy mega-projects, sited as they are across the West, the Northern Territories or Quebec and the Atlantic provinces, the capital investment component for Ontario-supplied equipment and services invariably averages about 40 per cent of the total project.

In that framework, we mostly see Ontario industry as an efficient and able contributor. In some sectors, like steel product, which is very important to my companies, the Ontario industry is more than competitive in quality and price compared to worldwide rivals. Keeping that status has taken a bit of mutual loyalty at times between Ontario suppliers and western users, but both have made it work well.

In some other sectors, the issue of tariff protections and the branch plant syndrome that former national policies created in Ontario are still negative factors to the West.

As to financing management and services, we acknowledge how much Toronto provides but wish there were some more head offices for western residence. Being in the same time zone as New York is not a convincing point; the Alberta work day starts before the New York opening anyway. The fastest growth industry in Canada has to be the passenger air service between Toronto and the West and this constant evening travel is broadening parts other than our minds. We wish more financial staffs would give up the restaurants and culture of Toronto and come out where the skiing is so good.

Also, I see this in Ontario. In northern Ontario, and eastern through the Ottawa Valley and southwestern from Hamilton past London, there are points of view and backgrounds much in common with the western counterparts. There are struggles in Canada, partly metropolitan versus the rest, partly still ethnic, partly capitalistic versus socialistic, partly of regional attitudes. However, the basic stock of attitudes and spirit has some uniformity across Canada and faster interchange of people is building it more quickly now. Therein is the hope for a national community capable of developing an effective national will.

One last point about Ontario's role. It should not be overlooked that it includes the main possession of the acquired wealth in Canada.

The personal wealth in Canada is, after all, definitely concentrated around here. The visible mansions or limousines, the most expensive public buildings, highest wage manufacturing employment, and so on are still very much a feature of the Windsor to Montreal belt, the self-pronounced "golden triangle."

While the East's arguments toward the West dwell on economists' calculations of average provincial earnings or the like, showing the West is inching up or ahead, it still sounds pretty false to westerners for southern Ontario to be remonstrating against new western wealth, as seemed to come out sometimes in recent years. To copy a Premier Blakeney point, it is still hard to rationalize any need for price subsidy of London, Ont., by Moose Jaw, Sask., to whoever visits both, whatever economist indices may show.

If Canada succeeds, I think that Ontario will prosper through its manufacturing base and momentum in regional wealth. So I think that it is topical to comment on Ontario's role by reference to the western problem.

NOVA, an Alberta corporation, and Husky Oil Ltd. have some circumstances beyond their present combined size, which rated by assets is just 14th among all corporations in Canada, but sixth among Canadian-investor-owned corporations. Other practical considerations are:

- that in such assets we happen to manage the largest corporation that is headquartered and directed west of Toronto;

— that NOVA was the initial Alberta corporation to sponsor mega-projects across Canada;
— that while entirely investor-owned, one-quarter of NOVA's is appointed by the Alberta government, a special feature that goes back over 25 years;
— that Husky is the principal integrated oil company under Canadian private ownership control and will be one of the most aggressive in exploration expenditures;
— that NOVA/Husky have the largest immediate project management and investment responsibilities among all Canadian private-sector corporations, with $2 billion to $3 billion per year of various project investments on hand plus our future role in the Alaska Gas Line;
— that we are known to choose our own long-range course for response to public policies and so are independent spokesmen.

Watchers of the Canadian energy industry during the past winter will know instantly that these considerations were not listed to seek prominence, but more to acknowledge that we are a company on the spot. There have been hazards in that status. Because we have not believed or said, like some, that the national energy program was all bad in its concept, the media has tended to look on us as taking the middle ground between what the media has also called "Team Alberta" vs. "Tanzanian Socialism," engaged in a Mexican stand-off.

Let's be accurate. We have not searched at all for middle ground as such, but for effective responses, critical on some points and supportive on others, to certain very serious government policies and indications of major change. Disturbing for us have been reports of NOVA becoming used by federal spokesmen as an illustration that the federal national energy program must be all right as is, which would be a distortion and make me emphasize when necessary that it is not all right as is. It contains some broad policies that we appreciated but also several proposals that in our view can contribute damage to energy development, factually and psychologically, unless they are modified.

Both the national energy program and the producing provinces have much work to do before broad policies like energy self-reliance for Canada and fair or reasonable sharing of revenues can be made effective.

Back in October, 1980, when the national energy program was outlined, the NOVA group of companies reviewed the documents carefully and with our customary optimism. Our thoughts were also tempered because we knew that the national energy program was developed in anticipation of stiff provincial opposition so that there were likely components that could "give way," so to speak, during federal-provincial negotiations.

As a result, we commented on aspects of the national energy program. We noted some negative aspects, such as the economics of producing heavy oil in the Lloydminister area. We noted some positive aspects, such as the natural gas substitution efforts. Overall, the NOVA group of companies has not yet changed its investment plans in a negative sense as a reaction. In fact, in anticipation of a resolution between the federal and provincial governments that would include revenues to the petroleum industry making Husky's planned investments all viable, Husky's board of directors authorized a capital expenditure budget for 1981 that for its Canadian operations is more than four times the projected cash flow for the year.

It is growing apparent, however, that the flexibility we thought would exist, which would include some fundamental aspects of the national energy program, has not been shown.

It is in this context that I believe I should comment on components of the national energy program that are negative.

With that explanation of our corporation's rather public role as I feel it, I want to emphasize the western problem, as I understand it, and to propose solutions.

If the western problem in 1981 is not understood and approached seriously as the Quebec fact became treated in the 1970s, then Canada will be in bad trouble as a whole and particularly in Ontario. For maintaining manufacturing wealth of Ontario in the 1980s, and maintaining a coherent Canada in which Ontario's political role can be reasonably strong, will require the distinct co-operation of western Canada.

In the late 1980s or the 1990s that onus may shift partly to Atlantic Canada, but for the near term and medium term it has to be western Canada to provide the economic engine through petroleum. Furthermore, that co-operation needs to be wooed by both sides; it cannot be bludgeoned by either, both sides being too strong. The wooing could start with realization of fairness.

The immediate western problem is this challenge as to fairness. Through the value of petroleum, the West, led by Alberta, has quite suddenly discovered one of those rare economic vantage points of power and holds it for a period and wants to use it for its betterment. However it perceives that central Canada, represented by Ottawa but supported by Ontario, can't stand the rivalry and is trying to remove this vantage point — through federal fiscal measures, through nationalization, through changing the Confederation deal on resource ownership and through neglecting fairness. That, I think, is the western perception in a nutshell as much as I can put it. Such a western perception may not be accurate, but it has basis from recent activities and the sense of suspicion will not be dispelled by words. Two articles of western faith are that good times don't last too long and that actions or work are more to be believed than are good wishes.

The specifics of the problem include these:

1. the federal election promise to Ontario that the West must deliver its oil and gas production in a price range that is less than one-half, closer to 40 per cent, of the values for the alternative sources or markets;

2. the application of new federal taxes within those 40-per-cent prices for production, which look more like royalty levies that have always accrued to provinces than like the kinds of taxes that have traditionally accrued to the federal governments;
3. discouragement of the natural gas exploration, production and service business community, particularly in Alberta. This largely Canadian community had developed important industrial expertise, including growing ability to develop export trade, but has been made to feel redundant by some of the federal statements;
4. discouragement of private sector and smaller Canadian companies in the West by a glorifying in petroleum ownership and management by federal Crown corporations.

That last point was not a crack at Petro-Canada, which is aggressively doing some good work as was intended. Nor am I overlooking the partisan aspect in the Liberal decision to create Petro-Canada. I think that this federal government gets so much enjoyment from featuring Petro-Canada partly because the Conservatives were so devoted earlier to its demolition.

Every time the prime minister enthuses about what Petro-Canada has done or might do, which I think he does very often, his writers may feel mainly that they are still scoring points from the Conservatives' previous error. But from my viewpoint they are mainly adding terror, or at least reducing morale, of the smaller private sector companies. So I'll come back to the nationalization question again.

The western problems I listed all have to do with just the petroleum business, it is true. That does not detract from the nutshell because the petroleum business embodies that one available economic vantage point or high ground. If the West receives and perceives that it receives fair treatment over petroleum, the lesson could take root and encourage the West's other long-term hopes for petrochemicals, agricultural processing, coal, and whatever other high ground it can develop for its less populated but vitally important territory. If it does not for petroleum, the suspicion that central Canada cannot stand western relative success will just dig in deeper, so the petroleum issue is more than petroleum "bucks" or even head office locations.

Before starting the more optimistic part of this, the proposing of solutions, let me also fasten for a moment on Canadian loyalty, pride and nationalism. I think it is important to stress while talking of western problems that Canadian interest is most dominant. In fierceness of purpose that there be a Canada, a balanced and distinguishable Canada, by continuation of Confederation, there is an abundance in the West. I honestly feel that absent of very unusual provocation there is no depth of support for separation, beyond the usual few per cent anywhere who look abroad for their spiritual leadership.

What is present is a sense of demand for fairness within Canada and that from tough, hard-working, and well-informed public groups and companies. In Ontario, I even suggest that you are hearing a similar message to one that came quietly at first out of Quebec in the early 1960s: "Just listen to us a little, with our problem, and maybe we can show you even more about being truly Canadian."

So, to solutions. Who is now entitled to speak for the West? Who can risk it from business in the face of such contrast between policies of elected governments? I don't know if I can do it skillfully but do feel those corporate responsibilities I dwelt on earlier. Our business is to get done the work that is on hand and then create more investments and production. But things aren't going well that way in 1981, so I feel obliged to try to put some proposals forward and figures on them.

First, let's make the domestic oil price more realistic. No producing province can be expected to see its delivery prices set by any federal government at 40 per cent of values in other markets or from other sources. This situation cannot help but breed trouble. In the light of newer information, including information about economic benefits to Ontario of western development, including also knowledge that the public is becoming more sophisticated on energy costs as well as more conservation-inclined, have we not reached in 1981 a time when Ontario can waive the federal election promise it got in 1979 and accommodate a really worthwhile price increase for domestic oil above $18?

Subject to points two and three, I am not embarrassed to suggest as round numbers even $10 per barrel in 1981 and the same order of increase in 1982. I think that the analyses and atmosphere are okay now to go that way and that the increase need not be another reluctant adjustment that changes the attitudes very little but can be instead a strong change that could equip the federal and provincial governments and the industry for a new higher level of petroleum development action.

It was interesting that after suggesting an instant $10 to $15 per barrel as in the overall national economic interest to La Chambre de Commerce du District de Montréal more than a month ago we received some approval but absolutely no protest from within eastern Canada. It is possible that the oil price reduction policy has outlived informed support?

Second, I would suggest federal consideration of converting the new taxes on oil and gas production and sales back from royalty-type small percentages on gross production to a larger new tax on profits. This could be a tax at progressive or graduated rates on higher operating profits where those profits derive from the coincidence of higher new prices and low costs of production of oil and gas already flowing.

The taxable profits would be revenues less recovery of investment and operating expenses and provincial royalties. In order to preserve the integrity of this tax stream, exploration and development costs could not be deducted in this calcalution as they are from normal income tax purposes. I am not expert in all the intricacies of distinction between royalties and excise taxes and

production taxes, nor all the consequences of precedent.

However, it is starkly evident that the particular tax provisions of the 1980 budget and the national energy program have got the provinces' backs up badly as intrusions into rights of royalty with the implication of further intrusion into provincial ownership and control, and there is no reason why that has to be forced in 1981 and forced selectively toward the West's resources.

Third, if the producing provinces see that the delivered value of their resource production in domestic markets is not unduly suppressed, would they not hold or reduce the percentage rate of their royalty to the 30 per cent to 40 per cent range while still increasing the absolute yield in dollars per barrel that they receive as resource owners? The royalty program should be somewhat flexible as to type and rate of production. Alberta has such a flexible system in place now at an acceptable level in this range.

If the incentives offered by the federal government for conventional exploration and development favor Canada lands, the provinces having higher royalty revenues could choose to increase their own incentives for continuing activity in provincial lands. For higher cost sources of hydrocarbon production such as the Deep Basin gas, new heavy and enhanced oil recovery, oil sands and heavy oil upgrading, the federal and provincial governments could work out a combined regime of progressive royalty and tax based on available operating profit to encourage their prompt production.

Wouldn't this package keep the producing provinces in an honorable position as the resource owners while leaving room both for increasing federal revenues, justified in part to offset inflationary pressures on any truly vulnerable consumers and in part to restore other federal fiscal deficits, and for petroleum companies to continue those production operations that do not today cover operating and maintenance costs?

To illustrate this proposal: a $10 per barrel increase would result in $3.50 to the provinces and $6.50 eligible for the new profits tax at rates greater than 50 per cent with the balance becoming normal taxable income. Could that not provide the sought-after increase in federal funding but also avoid another protracted jurisdictional row that is otherwise starting in 1981? I think it worth new consideration.

Fourth, I would suggest that if the 1980 unilateral federal move on production price were changed the 1981 unilateral Alberta move on conventional oil production cutback could change too. I do not know if all-stops-out production of present oil supply is truly the best plan or not, provincially or nationally. It certainly is not the best plan at excessively suppressed prices. At prices closer to value, the production quantities should be capable of agreement.

Fifth, if those first four moves were proceeding in good spirit we would propose that national attention be directed immediately toward the social costs and benefits of expediting oil sands and heavy oil development projects, and supplementary enhanced recovery development in the West, similarly natural gas for oil substitution projects in eastern Canada.

Each will have certain costs, for development, environment effects (good and bad), and provisions of supportive public structures. Each would also cause major employment improvements and manufacturing runs and development that could be managed to provide net economic and social benefits to Canada.

I am not going to upstage a forthcoming report and analyses of the bipartite Major Projects Task Force, which is proceeding toward publication and issue by the summer to the federal/provincial industry ministers, who ordered it up two years ago. We do know the positive effects such work could be made to have for both labor and industry and so do the government observers.

Sixth, we could ask that the natural gas development community in western Canada receive some specific encouragement, by joint decision of the federal and provincial governments, that marketing outlets for newly developed supply will be available, including temporary exports of overflow quantities, so that the tempo known in the late 1970s and in 1980 can be maintained to national advantage.

Seventh, we propose that the federal government emphasize now that it intends that the main thrust of its Canadianizing objective for the oil industry (which I support personally as a reasonable and overdue objective) be pursued henceforth via the private sector. I believe that has been its policy intention from the start, but there was so much emphasis in the national energy program text and since on the merits of state ownership, including nominating federal Crown companies to carry the ball in places where investor-owned Canadian companies had started the ball-carrying previously and well, that even those of us who see pluses as well as minuses in the program are having trouble keeping optimistic that the program will not become nationalization for its own sake.

The anxiety does not stem from any concern as to our ability to compete with Crown corporations, given that we both play the game within the same rules, but from a broader concern that an industry dominated by public ownership would not restrain or discipline the normal market and investment consequences that exist for private sector investment. The concept of providing Crown corporations access to funds with no cost to the corporation and sending them into a sellers' market can promote expenditures that would not stand normal investment tests.

Other major differences in the rules for federal Crown corporations versus the private sector appear in Bill C-48, the Act to regulate oil and gas interests in Canada Lands that is presently in committee. It provides a mechanism for Crown corporations to be the gratis recipient of a 25-per-cent working interest in essentially all Canada Land properties. Another example is the unusual latitude of the Minister of Energy, Mines and Resources to, at his discretion, change the operator of any play in the Canada Lands and designate a Crown corporation to take over that role.

If there were commitment of the producing province governments to encourage and support Canadianizing private industry in their own jurisdictions, should there not be curtailment of federal emphasis on unnecessary state ownership and management?

Eighth, not just to alleviate the petroleum jurisdiction tensions, but for much broader reasons of encouraging provincial/federal agreement on economic management, I will add the wish that the timetable for accomplishment of a new Canadian Constitution be extended to the extent necessary to provide time for further proposals of many informed and reasonable observers having both federal and regional backgrounds.

In this subject, our corporation is not expert and I do not mean to be impertinent. The thought is just to be practical in respect of medium-term economic progress, which is bound to be impaired while intelligent producer-province governments still feel so threatened in some respects.

That ends our list of proposals. Our corporate job is to listen carefully to public policies as chosen by elected governments, to comment on their practicality or the difficulties they create, as quietly or as vigorously as the circumstances seem to require, and then to manage efficiently and hopefully add to all our corporate objectives: employment, profits, long-range strength of our companies and their communities, opening markets for other natural gas companies, improved Canadian and regional position, and contribution to a sound economy.

It is not our role to work at sawing off any limb onto which a government, provincial or federal, may have climbed in performing its perception of public interest, nor would that be a prudent role for any company or industry group, in my view.

The next choice by a government elected but totally frustrated could be different again including more difficult for the industry. However, I have seen it as our role to be one of the organizations to give an assessment and suggest some solutions to a situation that worries us; I hope that will prove right.

Meanwhile, NOVA/Husky are great survivors as corporations, to say the least. We are enthusiastic about participating in a more Canadianized future petroleum industry, including its frontiers, just as we are already in the forefront of Canadianizing in the petrochemical sector. We hope that the horses on the team can be got untangled and pulling together, including the horses of Alberta and Ontario.

The Future of Manufacturing in Canada

William R.C. Blundell

Bill Blundell is president and chief executive officer of Canadian Appliance Manufacturing Company Limited, Toronto. He began his business career as a sales engineer with Canadian General Electric in 1949 and became a travelling auditor in 1951. Mr. Blundell held various financial positions before being appointed vice-president for consumer products in 1970 and of apparatus in 1972. He was named to his present post in 1979.

I am personally very optimistic about the future of manufacturing in Canada, and in Ontario particularly. However, we would all be putting our heads in the sand if we did not recognize the very significant competitive challenges immediately ahead.

Between now and 1988 Canadian import tariffs on manufactured goods will be reduced by 40 per cent. For the appliance industry specifically, this represents a reduction of 7.5 points.

A strong Canadian economy, led by the implementation of major energy-related projects, could move the Canadian dollar back toward par with the U.S. dollar. For Canadian manufacturers this would represent an additional 15-percentage-point closing of the competitive gap vis-à-vis U.S.-based manufacturers during the same period.

These two factors add up to a potential 22.5-percent reduction in protection for most Canadian producers between now and 1988.

Of even greater significance for consumer-goods manufacturers particularly is a dramatic new round of product innovation, associated with the explosive growth in applications of micro-electronics technology. This will bring a new round of intense import competition as we move through the 1980s.

Canadian manufacturers can respond to these challenges if they succeed in doing two things:

1. achieve breakthrough gains in productivity during the years immediately ahead;
2. learn how to successfully exploit international business associations to the economic benefit of Canada.

The pressing, immediate challenge is productivity improvement, so let's take it first.

A broad-scale thrust on productivity improvement has to be approached in a combination of ways. Some of the more important are:

1. It is imperative that we recognize the importance of manufacturing scale.
2. We must reach for leadership in manufacturing process technology.
3. We must re-learn the basic lesson on full participation of the total work force, currently being demonstrated to us by the Japanese manufacturers.

First, on manufacturing scale, there are special challenges for Ontario manufacturers. We are currently going through a period of discontinuity as many manufacturing companies make the transition from branch-plant status to internationally competitive operations. A greatly increased scale of manufacturing is absolutely essential in order to reach for the threshold production levels needed to justify investments in the most modern and productive machinery and processes in the world.

This is essentially a difficult, most unpleasant restructuring activity. It has made plant closings the number one political issue in Ontario politics today.

Two considerations would appear to be important here. First, there is a need to recognize that there are different kinds of plant closings. Where these represent legitimate reaches for improved Canadian-based manufacturing efficiency we must find suitable ways to facilitate these. Where such closings represent transfer of employment outside of Canada these must be recognized as such and receive the special attention that such moves deserve.

Second, the matter of employee dislocation, where manufacturing consolidation is economically sound, must be responsibly handled by the manufacturer to minimize the economic hardship for each individual employee and to ensure, with the help of appropriate government agencies, that new secure employment opportunity is identified for each individual.

In very general terms such manufacturing consolidations will tend to be built on the base of the strongest existing manufacturing resources. As a result, these forces will tend to further consolidate Canadian manufacturing in Canada's major population centres, notably Ontario, certainly over the mid-term.

Second, on productivity, Canadian manufacturers must drive for excellence and leadership in manufacturing process technology. Our Japanese competitors have used this as their key thrust in expanding their international sales.

Here in Canada R&D has a heavy product innovation connotation. In future we need to give increased focus to the new manufacturing process technologies such as robotics, micro-processor control, and so on.

Finally, on productivity, we urgently need to find ways of mobilizing the total genius of every employee involved in the manufacturing activity. We need a new attitude throughout our work force that creatively seeks out better and more productive ways of performing each manufacturing operation, and we need an intelligent and responsive management that matches these ideas with the needed investments to see them implemented quickly and effectively.

Moving away from productivity to the other key thrust, let us quickly mention some of the related aspects of international business association.

One outstanding characteristic of manufacturing, compared with the resource and primary industries, is its high level of mobility.

Essentially, manufacturing combines technology resources, the needed level of skilled labor, materials availability, and in-country infrastructure into the most economical package to serve selected markets. It is, therefore, responsive to changing economics and highly vulnerable to other competing groups of capital, technology, and other resources.

Canada, and Ontario in particular, is favored with some of these basic ingredients for success. It has one of the most highly skilled work forces in the world. On material availability, it has a highly efficient steel industry. And Ontario has a sophisticated infrastructure that supports its manufacturing industries.

But we must recognize that increasingly manufacturing is becoming an international game. We are currently witnessing the emergence of transnational pools of technology, labor, and materials that are organizing to penetrate simultaneously a broad range of country markets. Our Japanese competitors particularly are moving quickly to match their technology strengths with lower-cost labor and materials in other countries, to optimize their competitive offerings.

International business associations, if properly managed, can bring long-term economic benefit to Canada and contribute to the profitable survival of its manufacturing sector.

It is our personal observation that new international management concepts are being evolved that move away from the concept of an imperialistic, multinational company.

The progressive trend is to a family of individual companies based in different home countries, each with a chair at the decision-making table, each operating to the benefit of its own home-based country. Ownership configurations will become increasingly varied in form, tailored to an integration of the needs of the group and individual members. The joint venture format, for example, will most probably see expanded application.

Some of the benefits that such associations make available are:

1. participation in large technology pools, both as a recipient and as a contributor. This participation is absolutely essential to meeting the innovation-based import thrust of the 1980s.
2. increased international opportunities for product specialization to deal with the challenges of economics of manufacturing scale, which arise from the limited size of the Canadian market.
3. greatly expanded international sourcing opportunity, again, both as a components supplier on an international scale and as a purchaser for increased cost competitiveness.

Canada can optimize its position in such international associations if its Canadian-based company has:

1. clear-cut authority and control over its home-country marketing,
2. clear access to international market opportunity, based on demonstrated international cost-competitiveness and market success.

Home-country market control is important for leverage at the international decision-making table. This leverage can be further enhanced by significant Canadian equity ownership of the Canadian enterprise.

It is our own personal observation that Canadian control is really not a priority in manufacturing. The basic leverage is derived from significant Canadian ownership, which demands that Canadian interests be served.

Access to international markets is the other mandatory requirement. The Canadian company can negotiate such positions within its group of international associations provided that it has the bargaining leverage discussed earlier. But access is only half the story. In the final analysis, stewardship for international business opportunity must be won in the marketplace against all competition.

Appropriate international business associations, then, if properly managed, can bring long-term economic benefit to Canada. In fact, such associations are essential to the profitable survival of a very substantial portion of Canadian manufacturing.

In summary, Canadian manufacturers will succeed in the 1980s because:

1. we will achieve the needed breakthrough productivity gains, and
2. we will expand our perspectives to adjust to the international game.

Ontario's Importance to Canada's Economic Development

Richard A.N. Bonnycastle

Dick Bonnycastle is chairman and president of the Cavendish Investing Group, Calgary. He was a group representative with Great West Life Co. and an underwriter for Richardson Securities before assuming the presidency of Harlequin Enterprises Limited in 1968, where he now serves as chairman of the board. Mr. Bonnycastle is also chairman of Rupertsland Resources Co. Ltd. and a director of other corporations.

What's the energy market really worth to Ontario suppliers? How does the West view Ontario's participation in its economic development? The glib answer to the first question is *who knows*? and to the second – while that participation is being carried through your agents Messrs. Trudeau and Lalonde – poorly, very poorly.

The importance of the energy market to the Ontario supplier is very difficult to quantify at the best of times. However, in broad-brush terms, prior to the announcement of the national energy policy in October and anticipating oil prices near world levels, the oil and gas industry during the eighties anticipated spending $250 billion (in constant eighties dollars) on energy projects in Canada including expenditures on conventional exploration, offshore East Coast and Beaufort Sea exploration and development, tar sands, and heavy-oil plants and pipelines. If we assume 40 per cent of this was spent in Ontario and economic multiplier of three then $300 billion would have been spent in Ontario in the eighties. Now these are pretty airy-fairy numbers but even allowing a 25-per-cent margin of error they are significant.

In 1979 the industry spent $5.8 billion and, using the same factors, this represents $6 billion or seven per cent of Ontario's GNP. Coming to 1981 we ask ourselves what is the immediate effect on Ontario suppliers of the national energy policy. This is in two areas. First, conventional exploration in the western Canadian sedimentary basin. The CAODC told me that as of January, 60 rigs have left Canada, 60 more are committed to leave by April, 16 service rigs have left. This is 20 per cent of Canada's capacity. By May 201 drilling and 86 service rigs will be without contracts. Many would have left anyway but due to lack of pricing policies and markets for natural gas.

Now each drilling rig represents 60 direct jobs, which, with a multiplier effect put by Ottawa at 150 indirect jobs, gives approximately 42,000 jobs lost. Using our 40-per-cent figure this gives 16,000 jobs lost in Ontario. Now, purchasing agents I listen to say that many suppliers say they have not lost sales as the United States is taking everything they can produce, so they have not laid off anyone, but they haven't hired either, or expanded capacity to create new jobs.

The second area is tar-sands plants, of which two are now deferred. Two of these costing between $5 billion and $7 billion each with a multiplier of three and a 40-per-cent factor would have given approximately $16 billion during the next five years to Ontario suppliers and approximately 80,000 jobs divided between eastern and western Canada.

Now, apparently Mr. Callagher of Dome and Mr. Armstrong of Imperial Oil are using a figure of 150,000 immediate jobs lost because of the national energy policy. If those 150,000 were worth $10,000 per year each – which is low but even I can multiply that one – then a $1.5-billion payroll has been removed from the system and those 150,000 have gone on unemployment insurance and, if my Grade 12 economics are correct, then that percentage of those wages that goes for shelter, food, transportation, clothing, T.V. sets, etc. isn't going to go to the suppliers on Spadina, in Oakville, Leamington, or other Ontario centres where our expenditures usually go.

Anyone can play around with numbers, but again if these numbers are out by even 25 per cent they are still significant in the context of captive markets for Ontario products. We can talk and argue about numbers and rigs ad infinitum, but if we do we are talking about the symptoms and not the cause of the current attitude of the Ontario citizenry to the federal government policies.

The cause of the problem for westerners is a lack of wealth in the hands of the people of Ontario, not income; Ontario still has the highest income and hence economic power in Canada. This has come about by the loss of ownership and control of Ontario companies by Ontarians due to tax policies of past federal governments and the failure to participate in the high technology industries that have sprung up in the sixties and seventies. The solution, therefore, is to get Ontario citizens wealthy again so they think and vote the way we do, are able to buy our oil and gas at reasonable prices – not necessarily world prices – supply the capital to develop our resources, and produce quality products at competitive prices for westerners to buy.

How do we do this? Let's examine the Ontario situation today.

Ontario today, exempting the natural resource industries, is essentially a branch plant economy (BPE). A BPE may be defined as an economy in which the facilities of the businesses located therein are foreign owned, are of a capacity to serve that market alone, and in which all functions not needed to serve that particular market are performed elsewhere, usually where ownership and/or control resides.

By definition, no exports except for tax or economic reasons take place from foreign-owned facilities. Thus Ontario is deprived of the economic value of sales incremental to Canada's domestic market. In 1963, when Walter Gordon put forth his proposals for "A Degree of Canadian Ownership and Control," I called on a foreign-owned company in Canada to extol the benefits of going public in Canada. During the course of a conversation with the treasurer, a Canadian, we discussed exports from Canada and he said the government has been after them to go into foreign trade shows.

To humor the department they went into a trade show in Australia and much to their surprise sold $25 million (in 1963 dollars) of equipment. Before I could point out the value to Canada of this sale – say $5 million in wages, $16 million in components, $2 million in income taxes – he said that as they had a factory in San Francisco and as it was closer they gave them the order. Incidentally, I saw in the *Globe* recently that this company is now a leading exporter from Canada.

There is a lack of getting true Canadian impact into economic decision making. The Canadian Manufacturers' Association, The Canadian Petroleum Association, etc. are all dominated by representatives of foreign

firms. As people look after their jobs first, their views reflect what's best for their companies first, what's best for Canada second. Although they will confide their true thoughts in private, they are afraid to do so publicly.

Also managers of local firms cannot *comment on* local affairs or they are accused of interfering in the affairs of a foreign country. I have been on such a board, making recommendations to the government, which were blatantly pro foreign-owned companies. Now let's look at the benefits of ownership and control.

Ownership and control of businesses by the citizens of political jurisdiction bring to that jurisdiction:

a) wealth creation from the capitalization of earning streams and the discretionary use of that wealth,
b) income from the earning streams,
c) incremental income from exports,
d) dividends from foreign subsidiaries, and
e) the location of head offices.

In Ontario the great majority of businesses, other than those defined as "small businesses," are foreign-owned and controlled. The capital created by increased earnings of those companies takes place outside Canada. For example, if the profits of all the foreign-owned companies in Ontario grew from $100 million to $1,000 million from 1970 to 1980 then, using a price earnings multiple of 10, the growth in value of those companies was from $1 billion to $10 billion or $9 billion. This value plus the $500 million plus of dividends (five per cent) was created or received in New York.

If these companies had been owned in Canada the wealth created would have been spent here, on reinvestment, on personal consumption, to endow our universities or hospitals, etc; instead it provided those benefits to foreigners.

Let's look at the advantages of head offices.

Head offices are the location of the top executives of a company and hence the best management skills and creative brainpower. Talent is evaluated in branch operations in Ontario and usually works up to head office. Here are performed all the staff functions for the company, including control, treasury, marketing, research and development, etc. Head-office personnel often number 1,000 and up, bringing significant benefits to the countries in which they are located.

Harlequin Enterprises Limited, a Canadian-owned and controlled company, has grown from a staff of one doing business solely in Canada to a multinational doing business in more than 100 countries. Today ownership still resides in Canada, the company has a market value of approximately $300 million and a head office staff located in Toronto of more than 200 people supported by operations outside Canada.

If the principals had accepted an American offer of $100,000 in 1967, the staff in Canada would be no more than 10 and the capitalized value in Canada — zero.

The other important facet of a head office is its potential for spawning new businesses through what I call "creative fallout." Virtually 100 per cent of Canadian-owned oil companies were started by people leaving the employ of major companies located in Alberta. New banks and financial companies have been formed in Canada from the fallout from banks, insurance companies, and trust companies. It is no accident that Route 128 in Boston and Silicon Valley in California are the homes of literally hundreds of small high-technology companies, started by people who left IBM, Xerox, NCR, etc.

A venture capital company in Darien, Connecticut, of which I am a member of the advisory committee, has looked at more than 200 high-technology companies in the past 12 months, all of which started in the past five years, many which have the potential to grow to $100 million in sales in the next five to ten years. They have been started by head-office research, marketing, or operating people from the major companies located in Massachusetts and California. A recent report of the U.S. government shows the greatest increases in employment in the United States are in small high-technology companies.

I think Micom is a good example in Canada. It was started by two foreigners who left Northern Telecom. Thus may be seen the advantages to Canada of Ontario-owned and controlled businesses, how do we change the current situation without laying out a lot of capital to purchase existing businesses while encouraging new high-technology start-ups in Ontario?

We start with the premise that a major emphasis should be given to the attainment of as great a degree of ownership and control of the private sector of the economy by Canadians as is consistent with maintaining a continuation of foreign investment in this country.

The Foreign Investment Review Agency is the logical body to implement a program to achieve this objective.

It is recommended that the Foreign Investment Review Agency be empowered:

a) with the ability to require any new investment in Canada to have up to 50-per-cent Canadian ownership and control depending on circumstances,
b) to give first refusal to Canadians on any proposed take-over by a foreign company of a Canadian company, or if not practicable require a percentage of Canadian ownership,
c) to set up the mechanism for making qualified Canadian companies and entrepreneurs aware of the opportunities available,
d) to recommend government guarantees of loans to Canadian companies to acquire foreign-owned companies in Canada or abroad that will result in significant benefit to Canada by increasing their competitive position, profitability, and hence the size of Canadian head offices,
e) to require management and employees of repurchased companies or new investments to own equity.

Foreign reaction in terms of continued flows of capital to Canada will be favorable provided return on investment (ROI) to the investor is in line with what he receives elsewhere given all factors. Returns typically are higher at present than in the United States.

In 1963, subsequent to Walter Gordon's budget, the writer called on more than 50 U.S. companies with branches in Canada. Only one, a small one, objected to the legislation. Dow Chemical's senior vice-president called in five managers from various areas of the world. Their conclusion was as stated above. ROI was the prime interest, into which was factored political stability, competition, etc.

There are other ideas as well. Give 150-per-cent write-offs to individual Canadians for R&D expenses; R&D funds could be started to give the average Canadian the opportunity that is currently given only to corporations — mostly foreign-owned — more wealth created in New York. This will assist to develop Ontario for Canadians much as drilling funds allowed Canadian participation in the oil industry.

Allow the first $5 million of capital gains for specified technological investments tax-free.

Make all share options to employees taxable as capital gains or for specified industries tax-free.

Encourage profit sharing for employees.

Encourage employee share ownership plans.

In summary, we in the West must spend some time and effort increasing the wealth of individual Ontario citizens by means of increased ownership and control by Ontarians of existing Ontario industrial corporations and the creation of new technology companies, even to using the Heritage Fund for these purposes, so that in the near future a strong and economically free Ontario may resume its traditional role as the free enterprise component of the federal parliament and so lead Canada to realize the great potential of this country for all Canadians.

Moving Ontario Forward

Michael Cassidy

Mike Cassidy is a member of provincial parliament in Toronto. After graduating from the London School of Economics he became the Ottawa bureau chief for the Financial Times of Canada in 1966. In 1971 Mr. Cassidy was elected MPP and became leader of the Ontario New Democratic Party in 1978.

I don't want to join the inevitable and pointless debate between the other two parties about whether Ontario is faced with no growth or just slow growth. We simply need more growth.

In traveling around the province, I have talked with workers, managers, owners, and municipal officials. I know that there are difficulties in Ontario. We have about 300,000 people unemployed, we have a growing number of young people without skills, without jobs. We have communities like Windsor that are hurting and we have key manufacturing industries in decline.

The difficulties are there. But the real issue in this election campaign is not the problems, it is the solutions.

We all know that the government is one of the major actors in the economy. Public-sector purchasing of goods and services, including Crown corporations, account for about 18 per cent of our entire gross national expenditures. Total government expenditures in Canada on goods and services amount to $35 billion annually.

Obviously, the government has a real stake in the economy. The government has both a responsibility and an obligation to keep the economy moving.

Should its role be restricted to the vague and ever shifting goal of improving the business climate or should it get actively and directly involved in the economy? New Democrats believe in active participation and pragmatic planning.

There are a number of myths about New Democrats and the way we govern and I want to deal with some of those now.

One of the myths I want to deal with head on is that we are impractical idealogues whose only commitment is to nationalize everything from the multinationals to the corner store. That is simply ridiculous.

Another myth is that somehow once the government is directly involved with the economy it leads to inefficiency and bureaucratic top-heaviness. That is simply not the case. Anyone who wants to be honest about what New Democrats do in government should look at Saskatchewan where a mixed economy is booming to everyone's advantage. In Saskatchewan, New Democrats have used resource revenues to actively participate and to re-invest in mineral development and production.

We co-exist intelligently and prosperously with the private-sector resource companies. One indication of the health of that relationship is the fact that government agencies account for about 40 per cent of new mineral exploration in the province; investment from other sources in 1979, for example, was more than double the total investment in mineral exploration that year in Ontario under the Conservatives.

Saskatchewan's resource revenues have been multiplied by 20 since New Democrats took over the government from the swashbuckling free enterprises of Ross Thatcher. The province's growth rate in the first seven years of the Blakeney government was more than three times the growth rate in the seven years that Thatcher's Liberals ran things. New Democrats have been practical and pragmatic managers, Saskatchewan has one of the lowest per capita debts of any province in the country — lower than Ontario.

Closer to home, Manitoba's growth — more than respectable under the NDP — stopped dead when the Lyon Conservatives put their free enterprise theories to work. In fact, in 1980 the province registered in the minus column for the first time since annual provincial growth rates were tabulated in 1961.

The Conservatives' failure to provide economic leadership in Ontario has had serious consequences for our province. Without a game plan for development, our manufacturing sector has weakened throughout the 1970s. Manufacturing as a percentage of Ontario employment was 27.3 in 1971. Now it is 25.2 per cent.

Unemployment in the province remains at unacceptably high levels, layoffs last year were up 70 per cent over the previous year.

Rebuilding Ontario's industrial base is vital to the Canadian economy. Already, one-third of the manufactured goods sold in the country are imported and the national manufacturing trade deficit — $3.1 billion in 1970 — has now grown to $17 billion.

I believe the need for government initiatives to get our economy moving again is obvious. But the New Democrats aren't the only ones who can see that.

Even the Conservatives have become reluctant converts. Their BILD program — a book of ad hoc promises — will increase public involvement in a number of industries. Some of their proposals — like the promise of public investment in the mining machinery industry — are halfhearted versions of our policies.

The New Democrats' commitment to public involvement in the economy arises not just from ideology but from the economic realities of the 1980s. One of those realities is that the governments of the industrialized nations we compete with all intervene in key sectors of their economy.

The aerospace industry is a good example.

The DeHavilland plant in Downsview is public ownership in action. The company's sales are up more than 250 per cent since the federal government rescued it in 1974. The work force has almost doubled in the past two years and key technology that we need if we are going to remain competitive with other industrial nations has remained in Canada.

DeHavilland and Canadair are tangible evidence of the need for public involvement in the aerospace industry — and of its success.

Other industrialized nations have also seen the need for public involvement in the aerospace industry — even our free enterprising neighbors in the United States. The Americans haven't proceeded by way of public ownership — that isn't their style — but defence spending and contracting procedures in United States are clearly part of an integration of government and industry interests that has resulted in massive intervention in the private sector.

Another key industry with high levels of public involvement is the auto industry.

In Japan, the consensus-style planning co-operation between industry ministry bureaucrats and corporate planners promotes growth targeted to meet national economic goals.

In other western industrialized nations, the importance of the auto industry to the national economy has led to high levels of public ownership and direction.

In Germany, the government owns 40 per cent of Volkswagen and five per cent of BMW. British Leyland is in public hands. In Italy, the government owns 100 per cent of Alfa Romeo and 15 per cent of Fiat. The national auto company in the Netherlands is 45 per cent government owned. In France, the government owns 10 per cent of Peugeot and — through its 99-per-cent ownership of Renault — now controls the fate of AMC as well.

Recent events have shown that the North American auto companies will co-operate with the government when they are in trouble and need some help.

The government has to realize that the industry is important enough to our economy that we have to negotiate and plan for good times, too. The industry is too important to Ontario to leave its direction entirely in the hands of foreign multinationals and foreign countries like France.

The industry is too important for our technology base, for employment, and for our balance of trade. That is why the New Democrats have proposed the establishment of public investment corporation like Petrocan to give us a window on the industry and to give us a stake in the strategic auto-parts sector.

Public involvement in key economic sectors in Ontario is nothing new. But a New Democratic government would indeed take public involvement in new and different directions. The first of those is that we will organize it and direct it so that it pays dividends for Ontario.

There is currently no government body with an ongoing responsibility for monitoring and directing the performance of Ontario's publicly owned enterprises.

We have proposed the establishment of a government holding company — the Crown Investments Corporation — to do that job. It would have responsibilities for public enterprises with existing assets in the neighborhood of $20 billion, ranging from Ontario Hydro to one of the most profitable retail outfits in Canada, the provincial Liquor Control Board.

The Crown Investments Corporation, operating on the Saskatchewan model, would be directed by a board of cabinet ministers who also head up the boards of various public companies.

The government's intervention in the economy should be well-informed. We believe equity positions and involvement in key industrial sectors through direct investment or joint ventures is the best way to give the government up-to-date information on the realities facing Ontario industries.

It's the best way to avoid massive assistance to companies that fail to reinvest in Ontario. That's exactly what the major thrust of the Conservative development strategy during the past two years has been: handouts for the pulp and paper companies that didn't reinvest to remain competitive despite high profit levels. That intervention was not well-informed. Nor was it well-directed. It created no new jobs, no equity for the investing taxpayers, no ongoing voice for the government in the industry.

Very few of the companies that you represent here today would invest on that basis. And yet, because the Conservatives have maintained a hands-off approach, the province was faced with the need to spur reinvestment or face job losses.

Public investment must be more than well informed. It must have clear goals.

The first goal obviously is growth and jobs. That growth will come from strengthening key manufacturing and resource industries, increasing technological innovation and development, and lessening dependence on imported manufactured products.

Job security and increasing opportunities for women should accompany economic growth; the New Democrats will use public involvement in the economy to ensure that they do.

Economic equality for women is a key part of our industrial strategy. That means training women to move into new occupations; it means affirmative action and it means equal pay for work of equal value.

Slow growth in Ontario has meant cutbacks in basic services to people, services that we should be able to afford. The New Democrats believe that a major goal of economic planning should be to generate the funds — through growth in the private and public sectors — to finance quality health care, education, day-care, and other social services that the people in this province deserve and have come to expect.

A key element of our planning for the future is a less dependent Canada. The New Democrats don't apologize for being nationalists. Canada's future should be in the hands of Canadians. Our steel industry — Canadian-controlled. technologically advanced, and internationally competitive — proves that we can do it.

The government of Ontario has a responsibility to help meet national economic goals. It has to set out its priorities and involve itself in the economy to make sure that we keep the nation's manufacturing heartland strong.

We have to get Ontario moving forward again.

Ontario's Economic Prospects

John Crispo

John Crispo is a professor of industrial relations and public policy at the University of Toronto. A graduate of M.I.T., he became the founding director of the Centre for Industrial Relations in 1960 and then the first dean of the faculty of management studies at the U. of T. He was a member of the prime minister's task force on labor relations and director of research for both the royal commission on labor relations in the construction industry and the select committee on manpower training.

Much of what I have had to say lately about the future of this country has been labeled pro-western Canadian and therefore anti-central Canadian. I refuse to accept this false dichotomy because I believe that what's good for western Canada is good for central Canada and especially for Ontario.

This province's first and foremost challenge is to appreciate and build upon its many great advantages. Ontario has an adequate public infrastructure and established industrial base and is at the centre of a country with fantastic economic potential.

Ontario must also come to terms realistically with its future prospects. While the province's relative economic position is bound to slip within Canada it can still continue to significantly improve its absolute position.

Ontario must stop resenting and resisting the West's new-found prosperity and instead ride it. To this end the province should avoid always supporting Ottawa in its battles with the West, accept Alberta's offer of 75 per cent of world prices as a generous deal, and insist on a sensible split of the resulting revenue, including a fair share for the producing provinces.

In return, Ontario has every right to insist on an equalization-payments system that effectively transfers funds from the truly have to the truly have-not provinces.

Ontario should also continue to insist on a common market in this country's capital, goods and services, and labor. This province's producers should go after the West's burgeoning market with a vengeance.

Our other major prospective market lies to the south because the United States represents this country's natural trading partner.

This province should be in the forefront of those calling for a reassessment of the U.S. option. Now is not the time to explore such an option but we should be ready to do so. The United States could be on the verge of one of the greatest booms in its history.

Ontario can afford neither naive optimism nor undue pessimism.

Currently, this province requires an acceptance of the West's ascendancy, the determination to take full advantage of it, and a willingness to explore our other options.

Ontario can continue to enjoy growth and prosperity provided business is assured more certainty and confidence based on sound federal and provincial policies in a number of key areas including the constitution and energy.

Ontario must play a more broad-minded and constructive role in this country if it is not to jeopardize its people's future. Right now this province probably stands to lose more by default than design.

Ontario Takes Up the Challenge

The Hon. William G. Davis

Bill Davis is premier of Ontario. He graduated from Osgoode Hall Law School and entered private practice until he was elected as member for Peel in 1959. Mr. Davis served on the select committee studying executive and administration problems from 1960 to 1963 and after a year as second vice-chairman of Ontario Hydro was appointed minister of education in 1962. He became premier on March 1, 1971.

As premier, it has been my task to help shape Ontario's participation in national affairs, and in that capacity I have advanced, on behalf of our province, positions and principles that may affect the course of our future together.

This obligation and indeed this privilege goes with the job. How it is discharged, however, is often, to a significant extent, a personal responsibility. Precedent and consensus have always served me well. However, inevitably there are those new circumstances and new challenges that demand new answers.

That was how I saw my duty to Canada and Ontario during the past few eventful years when we decided to stand outside the conventions of our sister provinces, consistent with Ontario's traditional position, and call for the immediate patriation of *our* constitution by *our* parliament and to resist alone the determination of all other senior governments in Canada to move to world prices for crude oil.

Of course, I readily accept that both of these decisions are highly controversial. I appreciate the intensity of feeling that exists on these matters. However, I raise them because they vividly confirm that this *is* a time of critical choice and serious debate. I also want to make it clear that Ontario's resolve remains, however fair minded, firm and consistent.

In addition, I believe our country is sturdy enough and our democracy is mature enough that we can acknowledge the differences and work openly to find common solutions, a process to which Ontario remains deeply committed.

In this respect, we must not submit to mean and divisive slogans about the nature of Confederation and our economic union.

I am receptive to calls for economic and constitutional redress. Indeed, I have complaints of my own. However, the debate between those who want to retrench and hide out and those committed to reorganize and move ahead is not accurately one of regional perspective. The struggle in this country, despite some flimsy partisan pipedreams, certainly is not, as some are so quick to suggest, between a "burnt-out" centre and its so-called hinterland.

Our somewhat embattled Canadian federation and our common enterprise economy must avoid, in defiance, the inward and the intolerant. But the struggle to maintain them, I suggest, is taking place within all our provinces. As I address specific concerns, I am confident we all must face, as Canadians, the more expansive and adventuresome choices before us.

To that end, there are several critical issues that underlie our concern that we re-ignite economic growth and restore a sense of *national* purpose to Canada.

Before I address the question of where we stand and what we can contribute, I feel it is vital that all of us, and particularly our leaders, are honest about our true circumstances as a modern, highly developed, and infinitely complex economy.

I am impatient with our immediate economic circumstances — I want to see us do better. And I hope I have been, and will continue to be, candid about the obstacles in our way. Nevertheless, I am convinced that our economy is fundamentally sound and that confidence, moderation, and realism should govern our choices for the future.

I say that because I believe we have built well in Ontario; that, despite the defeatists in our midst, our enterprise economy has demonstrated a capacity to adjust and meet new challenges that has been second to none.

Quite frankly, Ontario is hard enough for the rest of the country to understand without hearing silly allegations that belittle our fundamental strength and our positive prospects.

Of course, drift is not an option. Furthermore, I am a Conservative in the Canadian tradition, so I am not wedded to the status quo. However, scare tactics have no place in a debate about our collective future. Certainly panic and those who attempt to sustain it are not a thoughtful source of good ideas or sound judgement.

Our commitment to strengthen the private sector and to ease up on the government interference was not a gamble but a proven success. Indeed, our new economic development program will work *with* our entrepreneurs and risk-takers because creative forces are alive and well in the private sector. Clearly, the facts extensively demonstrate that our manufacturing and industrial base is tough, resilient, and here to stay:

We have led our competitors throughout the industrial world in employment growth in manufacturing; output per person in Ontario is well above the national average;

Last year our manufacturers invested $5 billion in the future of our province — that was well over half of all manufacturing investment in Canada;

During a recent period of the so-called years of "de-industrialization" — 1975 to 1979 — Ontario created more than two-thirds of the manufacturing jobs in the country;

Despite serious employment declines in the automobile-manufacturing sector last year, our economy generally resisted recessionary forces operating throughout North America. Indeed, 75,000 jobs were created in other sectors of our economy and significant employment growth took place in such high technology areas as chemical products (10,000), electrical products (8,000), and machinery (7,000);

Again looking to the future, it is noteworthy that just more than half of Canadian research and development is performed in Ontario and, on a per capita basis, this expenditure is almost double the average performance of other provinces;

It is estimated that there are approximately 1,000 Canadian-controlled, advanced-technology companies in Canada, of which about 70 per cent are located in Ontario. Furthermore, a recent Toronto stock exchange study of 10 representative

high technology companies, all formed in the 1970s, discovered that:

sales are growing at almost 60 per cent each year;

more than 50 per cent of output is exported;

skilled employment is growing at a rate of 38 per cent each year;

R. & D. spending averages 14 per cent of sales; and

productivity growth is 32 per cent each year.

Reasonable, steady growth and progress are something to which we have become accustomed in Ontario. In that and in so many other things, we have been truly blessed. However, I think we should be particularly reassured by our performance during the past few years, while executing choices for the future.

There are those who approach this quite differently. They do not give the benefit of the doubt to our market economy. While I am extremely sceptical of their position, I do understand their motives.

What puzzles and, frankly, annoys me is the proposition that our economy is somehow winding down, simply because other provinces in Canada are growing as well.

Would those who advance this proposition seek to limit other areas of Canada seeking to match our prosperity? Surely not.

Our BILD program is designed to address *our* economic difficulties and to stimulate *our* economic growth rate. Surely our policies and concerns for the future should not be born of envy toward others but of a determination to do *our* best with the opportunities *we* possess.

And there should be no doubt that Ontario will remain the central engine of our economic union. Further, as long as we do *our* best, and that is quite well, then we should take considerable satisfaction from what we contribute to our national economy and to the progress that takes place in other areas of Canada.

What I have said about our economy up to now was not intended to be boastful. Indeed, I have entered this discussion of our *relative* performance with some reluctance. I do not feel we are so small that we must always best our neighbors, or that we have no serious problems of our own so long as we simply out-pace most of our sister provinces.

In fact, it is my conviction that while the Canadian economy has not gone stale it is being held back by stale economic policy at the centre and wasteful distrust and division throughout our federal system.

During the past three decades, federalism has been predominantly a struggle between central and provincial interests. During that time Ontario has often performed an implicit role of broker between those interests; seeking a fair place for our united purposes. If the opportunity honestly arises to play such a role in the near future, we will respond.

However, we are not disinterested players: Ontario, the home of 8.5 million Canadians, has a profound stake in the resolution of our most critical disputes. Thus, rather than play the referee or attempt to foresee what the future will hold, I wish simply to make a few assertions as a moderate Canadian who still holds firmly to that national vision of one strong and prosperous Canada.

First, it is urgent that the federal government come home to the historic Canadian imperative of economic growth.

The strong performance of our economy in the past has been the basis of our greatest social achievements. It has created opportunities for the disadvantaged to advance, for families to educate their children, and for the average worker to gain security of home ownership and an adequate pension. Yet weak growth and "stagflation" frustrate our long-standing goals, jeopardize our social advance, and divide us from one another.

It is our intention, through our BILD program, to stimulate our economy and demonstrate that Ontario is anxious to move our economy ahead. By concentrating on indigenous Ontario electricity, improved transportation infrastructure, specific high technology industrial incentives, natural resource initiatives, community economic development, and extensive skills training we have developed an explicit program to assert and enhance Ontario's economic might, thereby strengthening Canada's overall manufacturing competitiveness and productivity.

However, if we are to do our best, the federal government, after five years of failure, must review its anti-growth policy of high interest rates and "stagflation."

The Ontario economy has hardly been an important source of Canadian inflation during the past several years. In fact, by reducing our deficit, holding the line on taxes, and reducing our civil service, we have been an anti-inflationary force — almost alone among Canadian governments.

The so-called federal anti-inflation measures are especially punishing to our auto industry, to our small enterprises, and to all those we need to help build Ontario's future with new ideas and new investment now.

Second, it is essential that we stop trying to end run each other on the energy issue and acknowledge its complexity and its significance to the future of the country. Then, we must put all the issues honestly on the table.

Simply, there is no quick fix that can responsibly serve all the legitimate interests involved.

It is easy to gossip about personalities and to repeat such slogans as the "Ottawa government," "eastern protectionism" or, indeed, "made-in-Canada prices," which, I think, was originally my own.

Furthermore, such airtight concepts as "world prices" and "ownership" will not remove from us the responsibility to act with care, indeed, with some wis-

dom. No one can convince me that it is beyond the capabilities of Canadians to do that. There do not appear to have been good faith negotiations between Alberta and Ottawa to date. Without attributing blame, there seems to be a drift toward conflict that should be avoidable.

Third, it is high time we took ourselves seriously as the seventh largest industrial power in the western world.

It was once said, far back in history, that Canada was merely a collection of 10 provinces with strong governments loosely connected by fear. But surely there is more to what we are today than simply not being part of the United States.

After decades of playing catch up, we have arrived as an economic power with high potential and increased maturity. To balkanize what we have accomplished would be an appalling act of small-minded destructiveness. It would be a denial and negation of the few but important economies of scale we have achieved as a competitive world trader.

In approaching the latest round of tariff cuts, in expanding our procurement policy, in designing our economic development policy, and throughout our participation in the recent constitutional talks our government has enunciated an open, Canada-wide policy: embracing not only the risks and rewards of a smaller world but the obligations and opportunities of a common domestic market.

In this respect, I find it difficult to take seriously any concern that entrenching in our constitution the right of people to live and work anywhere in Canada could frustrate legitimate provincial objections. Indeed, it is my hope that some day it will be beyond the reach of the government to discriminate against the free movement of services as well.

It is perhaps trite but nevertheless quite accurate to say that these are uncertain times for all of us. And there is nothing wrong with that. Certainly, the optimist, with responsibilities, must be vigilant. However, I believe in the underlying vitality of Ontario and its destiny within a united Canada, so rich in promise and challenge.

As Canadians our task remains the unfinished business of building our nation: of honoring what we have achieved and of pursuing the great opportunities that lie ahead.

Ontario has indicated through its BILD program that it has the coverage to envision a high-technology industrial society, eager to make the choices necessary to sustain both economic prosperity and social progress for itself and, thereby, for our industrial heartland. The choices we would make, the vision that we offer, are before you.

On March 19th I will be able to report on how "our shareholders" feel about our strategic expansion program.

I believe they will choose growth, expansion, and the dynamic cultivation of justified retooling for the competitive eighties.

The business community in this province, along with the great majority of thoughtful Ontarians, has never lacked the courage to make that choice before.

A vibrant and dynamic economy and an Ontario that can speak to some common pro-growth truth, with all its might and capacity, will depend on that choice.

Ontario and Canada: A View from the Mysterious Far East

Gerald J. Doucet

Gerald Doucet is a senior partner in Doucet, Kelly, Evans & MacIsaac, Port Hawkesbury, Nova Scotia. A graduate of Dalhousie University Law School in 1961, Mr. Doucet was elected to the Nova Scotia legislature and appointed minister of education in 1967. He is vice-president of Doucet & Associates Consulting Limited and of several companies in Atlantic Canada.

I want to deal mainly with Ontario as it is seen in my part of the country, at least by some of us. The attitude I bring to this Conference is wholly positive. What is happening in the "mysterious East" is veiled by myths of abandoned factories and old fishermen. It is obscured by tales of wartime Halifax, the Newfie joke, and the like.

The reality of the piece is that Atlantic Canada is approaching a tangible take-off point in its own economic development. The impact of offshore oil and gas exploration, the growing fishery, the exciting hydro power potential of the Upper Churchill and Fundy, coal and potash deposits, other mineral wealth, the renewed locational and economic advantages of our excellent ports and harbors, all these are harbingers of a new era for Atlantic Canada.

We in the Atlantic try to look out at the whole of Canada and try to measure *its* changes as well. Navel gazing is not much of a "high" anymore. Nor are dreams of glories past.

So what do we see? We see a Canada whose political and social balances are shifting and shifting rapidly. We see a Canada where power is starting to diffuse, to spread out. A country that is taking on its own identity and shedding its imperial heritage. I don't mean the monarchy and the British connection, though even that has started to strain under the pressures of our current Constitution activities.

No, I mean the breakup of what the historians once called "the empire of the St. Lawrence." Things are coming apart in the Dominion of old and a new country is being fashioned. It is a country where the Atlantic provinces may or may not play a greater role but for sure the role will be different.

What are some indications of the breakup of this "empire"? Let me offer two examples.

First, the outlying parts of the empire are very restive. Consider Quebec. Regardless of the result of the referendum last year, it is very clear that in the past decade Quebec has gained an enormous amount of self-confidence and autonomy. One could almost say that the referendum was an indication that Quebecers now feel they can compete on equal terms within Confederation and hence don't have to leave it.

Consider next Alberta and the West. We in Atlantic Canada receive many delegations of politicians and businessmen from the West. First they are interested in offshore oil and gas. That goes without saying. But second on their list is a genuine interest in Maritime history. How did the far East end up as "wards of Ottawa," they ask. What can the West learn in its fight in the 1980s from the lessons of the reduction of the Maritime economy by Ottawa in the 1920s? You would expect us to tell them and we do. They're learning and they have far more economic tools than we in the Atlantic did 60 years ago. And we celebrate their good fortune. We really do!

Finally, consider us in the Atlantic. Newfoundland is currently perceived by some as the "bad boy" of Confederation. The Atlantic Provinces Economic Council talks about self-reliance. Things are starting to happen. To some degree the threat of Quebec independence has pushed Atlantic Canadians into reviewing our collective and individual status within Confederation and relative to Ontario. Anyone who can visualize a map of Canada today can see the implications to us of Quebec's departure from Canada. Now that this speculation is in full flight and now that it is becoming apparent that there may be a double standard in expanding provincial geographic jurisdictions in Canada, the mysterious East is getting restive. In 1912 it was in the national interest to give northern Ontario to Ontario. In 1981 why is it not in the national interest to give offshore Newfoundland to Newfoundland?

My second example is the diffusion of economic power. The wealth of the West is known to everyone in the country. So is the change from the past perceived poverty of the Atlantic. Both, in their own ways, are changing the political complexion of the country. The West acts as a magnet for entrepreneurs and financiers alike. Even though we have a long way to go, the Atlantic is developing an economy that — slowly — is starting to stand on its own. Both, ironically, are benefiting from the energy crisis. The western involvement in oil, gas, and coal is well known. The Atlantic's involvement is more subtle. So far. One immediately thinks of the offshore but this is not what I am driving at.

Rather, if we consider the old Maritime complaint about transportation rates we are getting closer to the real future impact of energy costs on the Atlantic provinces. High energy costs in transportation work against land transportation and in favor of water carriers, since water transportation is inherently easier on energy use. As a consequence, an industrial redevelopment (remember the early 1900s?) of Atlantic Canada is just beginning. The growth of Michelin Tire in Nova Scotia is but the first of a line of new industrial complexes that will inevitably come to the East Coast.

The tugs of coastal development and resource wealth will reorganize the Canadian economy and spread economic power across Canada in the 1980s. Resistance to this trend is part of what the present energy and constitutional battles are all about. When factories moved from New Brunswick and Nova Scotia to Ontario in the 1920s it was said to be a "normal economic progression." Are we on the verge of another "normal" event today, 60 years later, albeit in reverse?

Questions abound. What does the breakup of this empire mean to Ontario? Will the empire strike back? Will it slide gently into the British disease? How can a new country be fashioned out of the pieces of the onetime empire?

From my perspective behind the veils of the mysterious East, let me try to make a few suggestions and prognostications.

A new Canada will obviously emerge in the 1980s. It will be based on the acceptance, by Ontario, that Ontario does not equal Canada, that Canada is a country

of regions, and that Ontario is but one distinct region of the country. Ontario will see that it is not the whole country but only a part, albeit a vital part. It is one thing to have been first among unequals. It is quite another proposition – and infinitely more challenging – to be equal among equals. Rather than to obstruct or resist inevitable change, Ontario can seize the opportunity to foster it and help fashion a new nation. Isn't this also where the realistic long-term self-interests of Ontario really lie?

You see, from the perspective of the East or the West or Quebec the problem with Canada is Ontario! It is no coincidence that most strong Canadian nationalists live in the Windsor-Ottawa corridor. Identity is not really a problem elsewhere. In Atlantic Canada, if anything, we probably have too much regional identity. Once Ontario, especially southern Ontario, becomes like the rest of Canadian regionalists or provincialists the identity crisis will be restored. How do we build a nation out of all this? We surely don't do it by weakening Alberta. We should strive for more Albertas, 10 of them. No one should pretend it's easy. It's not.

But, believe it or not, many of us who have thought about it want to be helpful to Ontario. As power – economic and political – becomes diffused, a new Ontario identity will emerge. The centre will start to understand what Quebec wants, what the West wants, and what the East wants, because it will want many of the same things.

For example, the western Canadian growth binge is good for Canada, Ontario included.

It would be even better for Canada at this point if the Atlantic provinces' economy were to really prosper. And it would be especially good for Ontario.

Why?

Because of the workings of the ancient doctrine called the balance of power. The power of the Atlantic to counterbalance the new power of the West. Is that important to Ontario? I somehow think so.

Let me share an open secret with you. The West very much wants the Atlantic to prosper. The West is genuinely hoping Hibernia and Sable petroleum discoveries become confirmed as commercial. They believe that this will be good for western Canada. The West also has genuine non-selfish empathy for the Atlantic. They care. The Atlantic people perceive accurately this sympathetic western sentiment and, as a result, where do you think the Atlantic stands toward the West? Very much pro-West, is the answer.

Mix a western Canadian with an Atlantic Canadian in a bar or wherever and if they find no other common denominator between them the chances are they'll come up with that of Ontario as the common enemy. That's a shame but it's a fact.

Canadians outside of Ontario in 1981 sense that Ontarians (1) feel threatened by the West and (2) continue to look upon the Atlantic as largely irrelevant.

One can understand this current Ontario feeling all around. Vis-à-vis the West, Ontario sees its economic dominance threatened and some of its commerce and industry in danger. Vis-à-vis the Atlantic, Ontario's approach for the most part has been similar to how most Americans traditionally treat Canadians.

The promotion of Ontario's self-interests hasn't to date generally required anything much more toward the Atlantic than the dual posture of condescension and support of the principle of federal equalization payments. I hope I'm not being sanctimoniously critical. It probably has something to do with something called human nature.

Let me come back to the balance-of-power concept. Put in its simplest and bluntest terms, a strong Atlantic can be, for Ontario, a very important counterbalance for a strong West.

Ontario's role is obviously in a state of flux. There may be threats from the West and threats from the Atlantic. But in 1981 Canada, Ontario is still the economic and political core of the country. The challenge of Ontario is one of adapting and helping to create a new Canada. If Ontario is not up to the challenge, it can wage a very effective resistance. The power of numbers in a democracy, whether as voters or taxpayers, guarantees that this resistance will be formidable, if not irrestible. But in the end, the clock cannot be halted forever or even for long and by the 1990s, if Ontario continues its current course, a hindsight search of the causes for the breakup of Canada will then probably include prominently this ostrich attitude on the part of Ontario.

Countries, provinces, companies, and athletic teams that have been first for a long time often find it difficult to change; it's probably because they're run by people. When you're consistently number one, sooner or later you tend to get stuck in your ways.

Of the United States' 50 largest corporations listed by *Fortune* magazine in 1960, 17 were no longer among the top 50 20 years later, in the 1980 list. Consider for example the decline of three former corporate giants, Swift, Pullman, and International Harvester. Down they're gone principally due to an unwillingness to change. And then there's the North American automobile industry.

So Ontario is both *a* principal problem and *the* major solution to Canada.

Nobody else is, in quite the same way. The choice of whether to recreate Canada or to destroy Canada is as much, if not more, Ontario's as any other.

We, the pieces of the empire of the St. Lawrence, await Ontario's decision.

There is little that is simple or small about this country. There is much that is immense and complex about it. On a planet of mediocre relativity, Canada is a veritable jewel.

Ontario has been Canada's principal beneficiary. It still can be.

Building Future Industries in Ontario

Kirk W. Foley

Kirk Foley is president and chief executive officer of Urban Transportation Development Corporation Ltd., Toronto, and of Metro Canada Ltd. He joined the Ontario Treasury in 1968. He was later appointed executive director, finance and planning, Ministry of Transportation & Communications and, in 1972, director of urban transportation. He received his present appointment in 1973.

Many of you may have read in the newspapers and heard through other media sources that there is a thing called "Ontario's new magic train." This train is operating in our Kingston transit facility.

For a number of years I have been listening to debates on an industrial strategy for Canada. These debates usually revolve around questions of priorities, questions of programs and questions of politics. They very rarely revolve around questions of products. We all know the old line that "if you can build a better mousetrap, the world will beat a path to your door." That is wishful thinking. That is not how this world works.

Intermediate capacity transit system represents a technology. It does not, however, represent an industry. It does not necessarily represent a product. For to be either a product or an industry you need more than the ability to say "it works."

Given the competitive world marketplace that exists today, any industrial strategy needs to deal with more than just building a better mousetrap.

I have been reluctant to characterize the recent experience of the urban transportation development corporation (UTDC) as victory or success. I am prepared, however, to characterize our experience as an "opportunity" — a significant national opportunity.

At present we are in final negotiation for the delivery of a transit system based on our technology to the greater Vancouver area. In real terms this program could be valued at approximately $600 million to $650 million.

In addition we are at present completing the analysis phase of a rapid transit program for the region of Hamilton-Wentworth that has been valued at approximately $100 million.

Further, we have bid this same technology into a marketplace in the United States (ostensibly sponsored by the U.S. government) called the downtown people mover program. We have been recommended for the city of Los Angeles and subject to federal funding are likely to receive a contract award values at approximately $135 million.

There is at least one other downtown people mover program where we believe we stand a reasonable chance of success: Detroit, a project valued at more than $100 million.

These projects total between $750 million and $900 million and all of them must be completed before the end of 1985, which is a four-year construction program, or about $200 million per year, a significant "potential order book" for a new technology.

In addition, there are offshore markets, an immediate one in South America and one in the United Kingdom, each of which is valued at approximately $300 million. Our technology is considered uniquely applicable to both of them.

So we have an opportunity: we have not yet delivered these projects, but we are very close to securing this kind of order book for Ontario, and therefore, the opportunity is now. The victory, if it comes, will be in 1985. I assure you that these statements are not a result of false modesty.

With this qualification, I am prepared to say we are excited about this opportunity. You will note, however, that I have continued to talk about the intermediate capacity transit system as a technology. I believe it is just that and I also believe it is a technology with superior performance and economics to others in the marketplace.

If it is these things — that is, superior in technical performance and superior in economic costs as well as unique in its innovation — then I believe we have an emerging product.

This product has been developed here in Ontario as a result of some unique investment and risk processes and, therefore, I would like to go back to how this came about.

I believe a workable industrial strategy for Canada cannot be based only on technology leading to products. The simple fact of having developed the technology and having produced unique and innovative products will not produce an industry.

Canadian industrial history proves the point. The Arrow was a Canadian technical success, perhaps a Canadian product, but it didn't produce a Canadian industry. The Candu reactor has emerged one step further along. It's a Canadian technology, it's a Canadian product, and it may be on the verge of being a mature Canadian industry. Canada's recent experience with Telidon is another case in point.

Indeed, the history of industrial success throughout the world requires not only the innovation, technology, and products but the creation of the total industrial capacity, manpower investment, and skill that transfer these items into the marketplace successfully and keep them there satisfying their customers' needs.

By itself, technology is not enough to create an industry. You need only ask the early competitors of IBM, Xerox, General Motors, and Boeing.

Each of these companies has become symbolic of not only a product but an industry. They have involved themselves in the marketplace, in establishing production facilities, in establishing distribution networks, in harnessing and applying capital efficiently to the distribution and servicing of their technology at a price that earns them a significant rate of return and keeps their competitors at bay.

I would like to rest that point here for a moment and take you back to 1974 to review how the ICTS product got to its present state of existence. In the early 1970s the quality of mobility in urban areas became a primary concern of governments.

There was an examination of land-use planning and development policies that indicated that urban areas would become increasingly dense and that freeways and expressways could not be the only element of urban mobility, leaving concentration of population to depend on the automobile for the basic movement in

cities. In addition, fuel prices began to climb significantly and questions as to long-term fuel availability began to be asked.

The Ontario government was committed to the supply of high-quality urban transit to its municipal governments, but required a significantly lower capital cost than the $75 million per mile that subways were soon to cost. When we examined Ontario's transit requirements we found two important facts:

1. that Ontario itself would be one of North America's major consumers of urban transit equipment, and
2. that based on the then present technology and its economic characteristics, Ontario could not afford to pay for the required increase in these transit facilities.

The only way Ontario's goals for a reasonable balanced urban transit system could be achieved was if the unit costs of rapid transit systems could be cut in half. On further examination it was evident that most of the developed and developing world's urban areas of between 750,000 and three million people were in the same position. There was a latent demand or a potential market but no product or industry that could supply it on the financial and performance terms required.

I need to mention now the urban transit market. First, UTDC and all other transit suppliers have no market except governments. That is, the private sector does not buy our products. We provide a shared facility for the public; therefore, transit is a public capital good purchased only by governments.

And, more importantly, we do not obtain sales contracts for $2,000 or $10,000; the size of each sale in this industry is in the hundreds of millions of dollars. As a result this is an industry in which it would be exceedingly hard to attract innovation through the private sector without government involvement.

Considering the high risks flowing from this market in which even the smallest order requires millions of dollars of research and marketing and in which the product can only be bought by governments (which certainly might be characterized as fickle in terms of their public procurement), it is easy to see why the private sector was not able to provide the spark for technical innovation in this product line that the market required.

Therefore, back in 1974, the premier of Ontario and his cabinet were advised that if high-quality urban transit were to continue to be provided in their own municipalities then a substantial increase in R&D and product innovation was required. Furthermore, we indicated that this would not be forthcoming from the private sector but that government would have to undertake a major part of this investment.

However, we said something further, and that was that there was a possibility that if Ontario successfully demonstrated a transit product line that would solve its mobility problems there was a substantial market in the balance of the world to be exploited and there may be the potential to develop a high technology transit industry, but that it would be risky. The risk stemmed from three major questions:

1. Can we develop the product, even if we have the R&D funding?
2. Can we control the production, distribution, and servicing of this technology?
3. Can we gain access to the marketplace dominated by other governments with nationalistic tendencies?

We asked the government to take two significant steps:

1. put up the front-end R&D money, which added up to more than $70 million, and
2. continue to commit, as best it could, its own Ontario marketplace in the long term to domestic fixed-rail systems.

It so happened that this last action was also compatible with the municipal land-use plans approved throughout many of Ontario's municipalities.

The Ontario government was prepared to accept these risks and as a result a highly qualified group of engineers and technicians was assembled and allowed to experiment and test a number of technical options around a comprehensive product plan called "the Intermediate Capacity Transit System."

In 1978 we had spent 90 per cent of the money and it was only at that point that I was personally able to tell the premier that I believed on evidence shown that the technology worked and met its technical performance requirements. By January of 1980 we had completed what we called the phase III program and knew the technology worked reliably and consistently and we had characterized its performance such that we knew we could turn the technology into a product.

In other words, these systems could be repeatedly built and delivered throughout Ontario, Canada, and perhaps the world. However, we were unsure of just how price-competitive we could be. Remember we were trying to build a transit system at about half the cost of previous subway systems.

In early 1980 we began to market this product carefully in a few jurisdictions. We targetted at three or four marketplaces. Ostensibly we were trying to test ourselves against the competition. And today we believe that we have met that competition favorably and that this product can be produced and sold at a price that meets its competition and better. Our product can be produced at about $25 million per mile.

Therefore, my conclusion is that we now have a technology and we now have a competitive product. Now our task in Ontario is to build an industry for the future.

In respect of creating this industrial capacity my philosophy has been that the production processes can be effectively managed by the private sector. Therefore, UTDC is now discussing with a significant number of private-sector corporations how they can be involved in the creation of an industrial capacity to:

1. produce the system and its components,

2. distribute and deliver the system and its components throughout the world, and
3. service the system and its components in sometimes distant markets.

I would like to draw the analogy of the automobile industry. The automobile, whether it be a GM or a Ford product or one of those foreign models (i.e. European or Oriental), is simply the product.

The industry is composed of not only the product design but a myriad of small and large entrepreneurs engaged in an incredible number of economic activities. These include producing small subcomponents for engine parts, body parts, steering wheels, interior fitments, and spare parts. This is the production entity. Dealerships and maintenance garages, petroleum distribution outlets, driving schools, and rental agencies are the distribution and service aspects.

Add these to the operation of emergency vehicles and such activities as highway construction, highway maintenance, and resale outlets called "used car lots," and you have an industry. It is large, complex, and based on a single product technology called the motor car.

Going back to transit, if the ICTS technology is to become a strong part of the transit industry then some of our present and future tasks are to set in place an efficient, low cost, reliable, and high quality production process including the assembly facility (like the auto production lines), the component manufacturing elements (much like the bumper manufacturing process), the delivery elements (such as dealerships and distribution networks).

And the processes must of course be in place not only for the vehicle but for the guideway, the computer control system, the power distribution systems, the unique aspects of stations and passenger handling facilities, and in some cases we will even be required to operate these systems.

The delivery of these products will require complex dealerships including major construction contracts. As it is with our sales, our dealerships in almost every case involve us with political jurisdictions: urban municipalities in the United States, the state of Jalisco or the national government of Brazil. Therefore, our marketing mechanisms, including our dealerships or distributors, are highly connected to public procurement processes. These are difficult linkages to establish.

The key to the success of these dealerships, which we will establish, is the provision of services. Think of the spare parts and product service capacities required when you have a new car. You take it to the dealer for servicing. We have to provide the training and maintenance capacities for the owner of the transit system and we will have to establish dealership networks to provide the spare parts and product improvements.

This will all be similar to the aircraft business with spares and servicing depots close by our clients.

How do we plan to do this? We plan, throughout Ontario and Canada, to engage as many of the current industrial production facilities as are economically possible in the manufacture and production of specialized components and hardware.

Under the recently announced Ontario government BILD program we plan to establish a centralized assembly facility for the vehicles and vehicle elements in Kingston, Ont. This assembly facility may be managed by UTDC or may be contracted to private-sector firms for management.

Also, we plan, in co-operation with the federal government, to establish a high-level international marketing capacity using our federal institutions such as the Export Development Corporation, our trade offices abroad, services of Canadian engineering and project management consultants, and joint ventures with private sector manufacturers for the sale of ICTS abroad. To date we have completed licensing agreements and marketing agreements with U.K. and Japanese firms.

Transpo' 86 is an international exposition of the newest in transit technologies that will be held in Vancouver in 1986. This, along with Hamilton and possibly a transit system in Toronto, will be our showrooms. We expect state visitors from all over the world to visit these facilities and see our product.

Further, we will be establishing in Kingston a large-scale training centre, including computer and train simulators, maintenance training facilities, and operational training facilities where transit properties from all over the world will be able to send their supervisory and maintenance staff.

For training on the operation and maintenance of this high technology transit system, this training centre will also act as the key distribution point for product servicing.

Our facilities in Kingston will remain as the engineering and test centre for the technology and, of course, will continue in its ongoing function as a centre for product improvement and development.

If we are successful in this part of the venture then we will be a major force in the urban transit industry and we will have completed the process of building a component of an industrial strategy. If we fail, we will have one more Canadian high technology product that did not make it in the international marketplace.

In other words, we will have another better mousetrap but *not* an industry.

There are some risks. Our competition is fiercely nationalistic and not always price responsive. The United States has introduced significant buy-American legislation that says that products procured by its governments must be produced within the United States. In Brazil and other emerging industrial countries they have even more prohibitive local procurement preferences.

There are cultural differences and political difficulties. For instance, it is difficult to contemplate marketing in Japan without licensing Japanese industry. It is difficult to consider being a major force in the U.K. marketplace without joint ventures with U.K. firms. We will, of course, be doing all of these things.

But none of these can be done without substantial investment capital. At the moment the seed capital is being provided by the Ontario government. However, at the present time there are no other governments involved in the ICTS venture.

As a minimum requirement it seems to me that such an industrial venture should be conducted on a national scale and should involve the government of Canada.

Therefore, an issue that will emerge in the next year or so will be the role of the federal government in this ongoing industrial development program.

The question will, of course, emerge: "Should UTDC and its product technology be sold to the private sector either through an outright sale of assets or a sale of its share capital?" Who should provide the major investment capital to do all of this marketing, production construction, and product servicing?

I believe such a question is worthy of consideration and will, of course, present difficulties either way, but it is not clear at the present time that such a venture should always remain in the public sector, owned, controlled, and managed by either the provincial or federal governments.

It is also clear, however, that the public-sector role in establishing this product line and endeavoring to create this industry was absolutely essential. Without it, there would be no technology, there would be no product, and there would be no opportunity to establish what can be a significant Canadian industry.

Let us not forget that we in Canada have a history — notwithstanding the Arrow and Candu export experience — of developing high quality public capital goods. Where others have excelled in consumer goods for the private sector, such as cars, cameras, televisions, and household appliances, we have an outstanding record of accomplishments in the public-sector capital-goods field.

Our electric power generating and distribution systems, our highway and bridge technology, our telecommunications industry are world leaders and provide us with one of the few sectors in which our related manufacturing and services exports exceed our imports. In each of these cases the role of governments in creating national or regional markets was critical.

In the 1980s and beyond we will need to develop our export markets more aggressively. And public capital goods exports means we will have an industry dealing more and more with governments as customers. This will require more federal and provincial participation in international marketing, finance, and industrial development agreements.

Regardless of how we answer the question of who puts up the capital investment, the key to future industries is new technology, higher technology, future technology.

Whatever name you give it, it is the product for which a market did not exist until the technology was created. And the key to taking advantage of good products and thereby creating true and beneficial industry is marketing and the establishment and maintenance of a high quality, efficient production process.

Ontario Investors in Canada

Robert J. Foster

Bob Foster is president of Canadian Capital Consulting Limited, Toronto. He obtained his MA in economics at Queen's University in 1966 and joined Dominion Securities Corporation becoming a partner in 1968. Mr. Foster moved to Kernaghan & Co. Limited and Thomson Kernaghan & Co. Limited in 1973, where he is currently a director and principal.

Are traditional Ontario-based manufacturing companies still an attractive investment?

Yes, is the strong and objective answer to this question. Qualifications exist, of course. They must be properly priced, financed, and managed. Let us explore these issues.

In approaching this question, I shall restrict myself to existing private companies rather than public companies or start-ups. I make these distinctions because start-ups belong in the venture capital field and are a unique and separate topic that should be dealt with on a different basis. In addition, I wish to restrict my remarks to the private sector since the attractiveness of public companies may be partially judged by the takeover bids that are made publicly. Partially because most of our public manufacturing companies are controlled and not for sale. For example, Canadian Manoir Industries, Slater Steel, Teledyne Canada, Hawker Siddley, and Lake Ontario Cement have all had bids above current market levels presented to the controlling shareholder and rejected.

It has been the experience of our firm that the purchase and sale of existing private companies in Ontario takes place on a consistent and fair basis for both the buyer and seller. The attractiveness of these investments has generally centred around the fact that these companies sell at book that, due to inflation, is significantly below replacement cost.

In addition, an existing company has historic cash-flow stream that may be measured and provides reasonable predictability as to its future net-free cash flow available to the new investor. As a consequence, the financibility of the potential acquisition may be calculated reasonably accurately. The attractiveness of these acquisitions is enhanced through the method of purchase.

Leverage buy-outs are the most advantageous form of financing for these types of acquisitions throughout Canada and United States and, as a consequence, a number of them have occurred in Ontario. What is a leverage buy-out?

Leverage buy-out is a term used to designate a specific kind of acquisition financing wherein substantial debt is used (often 90 per cent) in acquiring a company. Companies against which leverage financings may occur require a purchase price usually approximating book-value with a demonstrated significant appraisal surplus.

There must be sufficient earnings, real and projected, to adequately service the substantial debt load over a reasonable period of time (usually seven to ten years). The equity required in such transaction is frequently provided in the form of nominal-cost common shares attached to preferred shares and/or subordinated debt.

Frequently, a new company—"Newco"—is formed; it bids for the target company, and upon successful purchase of in excess of 90 per cent of the target company the two separate corporate entities are amalgamated. The amalgamation allows the debt of Newco incurred in financing the bid to be secured against the assets of the target, and to access the pre-tax earnings and cash flow to service the interest and principal of the debt.

Companies where this kind of financing may be successful concluded are normally:

(a) asset rich;
(b) not oriented toward high technology or rapid obsolescence of their equipment;
(c) not growing at a high rate; and
(d) not requiring significant continued injections of capital.

In summary, these may be described as dull, stable companies—not good material for political campaigns—but, unfortunately or fortunately, depending upon your perspective, the basis of much of industrial Ontario.

In addition to the criteria described, the successful purchaser must find a company that is:

(a) for sale at a reasonable price; and
(b) managed well or with confidence, so it can benefit from the injection of additional management.

Leverage buy-outs are traditionally arranged on a private basis with banks, financial institutions, and large private pools of capital.

Examples of leverage buy-outs include Anthes Equipment and Office Specialty, both purchased from Molson's.

Molson's received book value and a high earnings multiple (12 times pretax in one case) and saw its employee groups become successful entrepreneurs. The companies are doing well, the new entrepreneurs are happy, the bankers are being repaid as promised, and Molson's used the cash generated for its successful acquisition of Diversey Chemicals.

As suggested, these kinds of companies are well established, serving a stable market, experiencing modest growth, and usually have well maintained physical plants requiring low level capital programs. Entrepreneurial management—and we have lots of it in Ontario—seems to be able to provide the energy and drive to ensure the success of these operations.

We have a long list of highly skilled, talented, seasoned executives who are anxious to become entrepreneurs. I am constantly impressed with the quality of people we see.

Often the best transactions are spin-offs from major companies that wish to divest themselves of modest sized operating divisions. These tend to be in the value range of $5 million to $15 million.

The buyers of these kind of transactions have included three broad categories:

1) the employees of the company iyself;
2) individual investors who may either operate alone or in small groups; and
3) nonbanking financial institutions.

The inclusion of the employee group in the equity

is often essential to get the kind of performance that is required to service the debt load that is assumed on a leverage buy-out. The employee group may not, however, have adequate funds or may not have sufficient prestige with the financial institutions and as a consequence an individual investor or investors and/or institution is required in the equity group.

The Ontario investor's consistent problem is finding opportunities. A properly funded and managed proposal will find an eager equity market. Corporately, we find ourselves embarrassed by the number of clients who approach us requesting an opportunity to invest in the medium-sized private industrial organization in Ontario and our inability to provide them with an appropriate opportunity.

The traditional Ontario-based manufacturing company is attractive and with well financed and properly motivated management can be an exciting investment in both the short and the long run.

We see enthusiasm in Ontario toward reversing the "bigness" trend and the success of the management groups assuming an entrepreneurial role in their new organizations.

Are Ontario investors taking sufficient advantage of new opportunities in other parts of the country?

Indeed, Ontario investors are aggressively seeking investment opportunities outside our own region. An interesting observation is that there is a significant amount of Alberta private funds pursuing investment opportunities in Ontario and Ontario private funds seeking opportunities in Alberta.

This is clearly a case of Alberta wealth wanting diversification and Ontario wealth diversifying into oil or oil-related investments. Interestingly, both parties are now seeing first-round investment proposals whereas only a few years ago it was generally agreed that the best investment opportunities were always seen within the local market first. As a consequence, a number of investment dollars are flowing east and west as diversification is sought in private and institutional portfolios across Canada.

In the public sector, the Alberta Heritage Fund has been lending funds to other provinces. In the private sector, Calgary oil money has been behind a number of Ontario-based acquisitions and, in reverse, a group of senior executives from an Ontario public real estate company recently bought an Alberta-based oil and gas company.

During 1980, our company easily placed a number of offerings that related to Newfoundland. The bulk of the funding came from Ontario. However, our investors were as far away as British Columbia and, not surprisingly, included Alberta.

It is also worth noting that Canadian investors are seeking opportunities in the United States and have been doing so in increasingly determined fashion. Recently a number of our Canadian institutions have been sending their "dealmen" to such places as Denver and Houston to participate in the oil patch there. These individuals have returned with exciting investment opportunities that have received the support and approval of their organizations.

The funding for transactions in Canada is, I believe, more easily achieved than in many other countries of the world. This relates to, first, our bankers' understanding of the attractiveness of an existing operation over "greenfield" financing and, second, the term lenders that have emerged within our marketplace under such names as Penfund and Permanent Capital.

Perhaps, however, within this framework the most interesting development has been the emergence of the large financial institutions as buyers of private companies. A significant number of the major institutions have shifted their portfolios toward the private market where they are prepared to take a long term equity position and, often, play a role in the establishment of the direction of the company through a position on the board of directors.

While the percentage of total assets dedicated to private transactions remains relatively small it is of significant importance in absolute amounts insofar as it is running into the hundreds of millions of dollars in aggregate.

We believe this trend will continue and that the entrepreneur will have little difficulty in finding financing to support his well-documented, carefully constructed proposal either within Ontario or using Ontario funds for opportunities outside our province.

Ontario's Role in Interprovincial Co-operation

Hon. Larry Grossman

Larry Grossman is minister of industry and tourism, government of Ontario. Graduating from Osgoode Hall Law School in 1967, he was first elected to the Ontario Legislature in 1975. Mr. Grossman was appointed as minister of consumer and commercial relations in 1977 and received his present portfolio in October, 1978.

During the past year and a half I have traveled across this country discussing what I think is a basic but fundamental message, and that is that the provinces, by co-operating, by building complementary rather than competitive economic development strategies, and by working together could build a strong national economy in which each region and each province creates more jobs and more income for our citizens.

In doing so, we have not gone to our sister provinces with empty political rhetoric. We have proposed pragmatic programs for interprovincial co-operation in which there were clear benefits to each participating partner.

While we have had some successes, progress on the issue of creating a true Canadian Common Market has been slow, and at times painful.

And this has been the case not because people doubted the practical benefits of the programs we proposed, but because too often the political will was just not there.

Sadly, today this country — which at one time rejoiced in its diversity — has turned those differences into real and substantial barriers to understanding, dialogue, and basic co-operation.

The introspection and critical self-analysis that was once a Canadian virtue has manifested itself as regional jealousies and mistrust.

Perhaps the greatest disappointment of all is that some of our opinion leaders — editorial writers, senior businessmen, and politicans — have exploited and fostered those feelings of alienation.

I am not for a moment pretending that legitimate grievances don't exist or that there are not justifiable reasons why some regions have diverging views on certain critical issues. But it is often easier to explain those differences and to play upon regional loyalties or jealousies than it is to develop sincere and pragmatic methods of dealing with and resolving those conflicts.

We have seen the Parti Québécois attempt to build on the historical mistrust of English Canada. We have seen some politicians escalate the political rhetoric to warlike declarations in attempts to prey upon regional loyalties. And we have seen among many of our opinion leaders an insensitivity to, and lack of concern for, the legitimate aspirations of other regions.

The whole arena of federal-provincial relations, with its ministerial and prime ministerial conferences, has too often become for some a vehicle not for resolving conflicts, but for perpetuating and publicizing them.

Given these realities, Ontario has had a critically important role to play during the past several years.

We have tried to be the moderates, the conciliators, and the negotiators of change. And that has not always been easy in the current political climate.

However, it is ironic that when I appear on hot-line radio programs in Vancouver or Edmonton and talk about interprovincial co-operation I tend to get a better reception than when those same proposals are put to some elected politicians.

But I think it is fair to say that my own leader, Premier Davis, has brought to those federal-provincial conferences a spirit of understanding and a commitment to the reconciliation of our national differences.

He has, on behalf of the people of Ontario, committed his government to the elimination of regional disparities through equalization payments; to the support and promotion of the economic diversification of the East and the West; and to the promotion of the broader interests of the nation as a whole, rather than to narrow or parochial interests.

I can't resist adding here that those who suggest that Ontario suffers if our sister provinces have an increase in their percentage growth rates, or that somehow the resource boom that has occurred in other provinces indicates that we are falling behind, are, perhaps inadvertently, contributing to and furthering regional jealousies and suspicions.

The reality is that Ontario not only welcomes the economic growth and the diversification of the economic base of our sister provinces, we need it.

Indeed, that is the principle cornerstone of our position on the Canadian Common Market.

What we have been pointing out is that too often provincial strategies have been developed in a vacuum. They have resulted in fragmentation, interprovincial barriers, restriction of markets, and limitations on long-term national development.

We believe that if we are to succeed in establishing a fully developed and internationally competitive Canadian economy, an economy in which each region can realize its economic potential, then we must find ways to complement each other's development strategies.

We must compete in the real world as a nation. It's that simple.

Our competitors are other industrialized nations, not our fellow citizens in our sister provinces.

Narrow provincial strategies designed to capture portions of an already small domestic market just won't work. They prevent us from developing economies of scale and result in high levels of import penetration.

In Ontario we practise what we preach.

We have been working in very practical ways to demonstrate our commitment to balanced economic co-operation within Canada to help ensure that companies in other provinces have realistic access to the Ontario market.

We have an explicit policy of offering a 10-per-cent price preference not just for Ontarian content but for Canadian content in public procurement.

Through our newly established Office of Procurement Policy we have extended our procurement guidelines to school boards, hospitals, and other Crown agencies.

And we have required Canadian — not Ontarian —

sourcing by recipients of Employment Development Funds (EDF).

For example, within the pulp and paper component of our EDF program we have to date levered orders for equipment and services worth more than $470 million.

I am very proud of the fact that more than 85 per cent of these orders have gone to Canadian suppliers as a result of the conditions we put on our grants.

And while Ontario material and service suppliers were major beneficiaries, out-of-province suppliers received contracts valued at more than $141 million.

In that one small program, by deliberate provincial policy, we contributed in a very real and very direct way to the economic growth of our sister provinces.

We as a nation have in the past failed to recognize that our greatest strength and our greatest opportunities for the future are with each other. But the fact is that the opportunities we have together are phenomenal.

It is estimated that in the next 10 years there will be a total capital expenditure of $273 billion on major oil- and gas-related projects in the West, offshore in the East, and in the North, as well as major electrical generating projects in Ontario, Manitoba, and Quebec.

The magnitude of these projects represents a potential stimulus to our country's manufacturing and industrial sectors that is virtually without precedent in our history.

In the short term, small, medium, and large sized manufacturers will experience increased demand for their products. In the longer term, we have a chance to build these firms into world-scale operations, while at the same time developing our industrial capability to the level where Canada can compete on an equal basis in export markets throughout the world.

But the fact is that we simply cannot take it for granted that massive Canadian capital projects will translate into equally massive orders for Canadian manufactured goods.

We must find the mechanisms, the vehicles, and indeed the basic attitudes to ensure that the orders for heavy equipment, machinery, and services are to the greatest extent possible placed in Canada.

On the Syncrude project, for example, 40 per cent of the materials purchased were sourced outside of Canada.

On the east coast $500 million has been spent on exploration during the past two years. Of that amount, only 35 per cent, or $175 million, was sourced in Canada.

Western Canada companies — drilling contractors and servicing firms — have developed and proven capabilities which should give them greater access to those developments on the east coast.

Petro-Canada has estimated that during the next five years exploration costs in the Hibernia developments will amount to more than $3 billion, with an additional $6 billion to $8 billion spent on development and equipment.

Surely western Canadian drilling companies are in the most advantageous position to enter into joint ventures with the new and emerging east-coast companies to service Hibernia.

In the manufacturing sector, Canada has one of the highest levels of import penetration of any nation on earth. Last year alone Canada imported $50 billion worth of manufactured goods.

By working together on a co-operative basis, we can develop import replacement programs in the health care and educational supplies sectors, in communications equipment, in mining machinery, and in high technology industries.

But we will never realize our full potential unless we muster the political will to accomplish these goals.

We have made a number of practical suggestions that I believe could contribute in a positive way to help promote interprovincial economic co-operation and strengthen our national economy.

Briefly, we proposed the establishment of a Canadian Domestic Market Development Agency, owned and operated by all 11 governments in Canada.

I believe that such an agency could be an appropriate vehicle for achieving real progress on matters of economic co-operation, joint ventures, and bilateral and multilateral agreement among the provinces.

The objectives of a Canadian Domestic Market Development Agency would be:

- to encourage changes in any existing provincial practices that limit the ability of Canadian suppliers to obtain orders;
- to work with mega-product managers in developing effective programs designed to maximize Canadian sourcing;
- to develop and maintain lists of mega-project equipment requirements and to act as subcontracting information exchange bureau; and
- to examine the issue of import replacement and recommend specific programs that governments could undertake to replace imports with domestically produced goods.

We have recommended the establishment of this agency because in our experience neither our politicians nor our officials, nor even our businessmen, seem aware of the incredible opportunities to do business right here in Canada.

To give you two examples:

First, on the Suncor project they maintain a warehouse for 36,000 replacement parts worth $18 million. Those replacement items are depleted at two-month intervals. That's $18 million in orders that are turning over every two months.

But the vast majority of those items are supplied by

foreign countries, despite the fact that Canadian suppliers could be more reliable on both price and service.

And why aren't Canadian suppliers competing for Suncor's business — or the business at Syncrude, Cold Lake, or the Alsands project? I think it is partly because there hasn't been enough co-operation in terms of exchange of information, timing, and policy.

Another example is in the health-care equipment and supply sector.

That industry is typical of many industries in Canada. It is fragmented, lacks specialization, and is regionally competitive.

The Canadian market for medical and health-care products amounts to $1.2 billion annually. But fully 70 per cent of that market — about $850 million — is currently being supplied by foreign imports. And this has happened despite the fact that we have within Canada the capability to serve a far greater share of this market.

To put the market into some perspective, the University Avenue Hospital complex in Toronto purchases more medical supplies and equipment than all the hospitals of either British Columbia or Alberta.

Manufacturers in British Columbia and Alberta should not limit themselves as regional suppliers. They should be selling aggressively into the central Canadian market building the base upon which they can be internationally competitive.

We have found that in many cases our industries were fully able to compete on price and on quality but that people in one region of Canada were too often unaware of the supply capability that exists in other parts of the country.

A Canadian Domestic Market Development Agency — owned and controlled by all 11 governments in Canada — could provide the information linkage for a whole host of industries and enable us to achieve real progress in strengthening our domestic market base.

The fact is that we can and should ensure that:

- when we move toward the fibre optic wiring of Canada we should be using the technology developed by Sask Tel;
- when our schools and institutions purchase the high-technology equipment that they require it should be Canadian equipment where possible;
- when our governments convert to "office of the future" technology it should be Canadian-made products that are considered first;
- when our east coast exploration companies require expertise and joint ventures with drilling companies, it should be western Canadian, not Mexican or British companies, that they give first consideration to.

I have proposed to my counterparts across the country that this agency — with an initial capitalization of $8 million — be composed of a board of directors, composed of former senior business people and government officials who intimately understand and have access to the top people in business and government; a policy section to research regional economic development issues and interprovincial trade patterns; a field section that would provide concessionary financing to Canadian firms competing in the Canadian domestic market against foreign firms that have obtained a competitive advantage by acquiring export financing from their own governments.

We have recommended that the total staff requirements of the Canadian Domestic Market Development Agency be limited to 25 people. Half of these should be professional full-time employees of the corporation and half should be seconded from the 11 government partners for periods of not less than one year and not more than two years.

I am hopeful that these proposals will, in some small way, assist in reaching an agreement between the provinces and the federal government on co-operative programs and policies.

The fact is that we cannot afford further discord and further fragmentation. A nation pre-occupied by its internal divisions does violence to its spirit and its will to survive.

Canada cannot tolerate much more.

The fundamental question now is whether, after many years of interregional jealousies and traditional arguments and after almost a full year of frustrating constitutional talks, we are going to continue to let our disputes dominate or can we muster the political will to work out pragmatic programs of interprovincial co-operation.

The answer is: We must.

Financing Ontario's Capital Requirements

Alan B. Hockin

Alan Hockin is executive vice-president, investments, The Toronto Dominion Bank, Toronto. He joined the Department of Finance in 1946 and represented Canada in senior financial positions to NATO, the GATT sessions, the International Monetary Fund, and as a financial counsellor with Canada's embassy in Washington. From 1964 to 1969 he served as assistant deputy minister of finance. In 1970 Mr. Hockin joined Moran Stanley & Co., New York and in 1971 moved to The Toronto-Dominion Bank, assuming his present position in 1972.

To review the availability of financing for the expected capital needs of business in Ontario, let's begin by looking at the probable requirements for capital in this province. The department of economic research for the Toronto-Dominion Bank has estimated that Canada's investment requirements during the decade of the eighties will be about $1.5 trillion. This estimate includes government gross fixed investment and housing as well as business non-residential investment. The last category—business non-residential — is expected to account for 65 per cent to 70 per cent of total Canadian fixed investment.

During the 1980s Ontario's capital needs may account for about 20 per cent, or close to $300 billion of expected investment in Canada. This proportionately low share for Ontario, compared with Ontario's share in the past, reflects the greater maturity of the province's economy and the shift of economic activity and population growth to other parts of the country, namely the West. It is very difficult to be precise about the total capital requirements of the business sector in the province. But if the same proportions are applied to Ontario as apply to Canada as a whole, we might expect about $200 billion would be required in the province for business investment. The growth of investment spending for the housing and government sectors may be slower in Ontario than in the more rapidly growing parts of the country. The requirements of Ontario's industries during this decade, however, should remain relatively high. Some industries, such as the automobile industry, will have to retool and modernize to stay competitive. Others, such as steel and the resource industries, will have to expand capacity to meet growing demand for their products.

Ontario Hydro, which is technically included within the government sector although its capital needs are directly linked to the demands of the private sector, is in a rather special category. Its requirements are estimated to be about $24 billion for the decade. Taking this into consideration, a ball-park figure of about $250 billion for business and Hydro's capital requirements for the decade of the 1980s would appear to be reasonable.

The history of Canada as a still developing nation gives reassuring evidence of the fact that investment and savings have on many occasions reached very high levels as a proportion of Canadian economic activity. In some years it has gone as high as 25 per cent.

Furthermore, Canadian financial markets and institutions are among the most highly developed and sophisticated in the world. They provide an experienced and efficient channel through which the savings generated by households, corporations, governments, and the foreign sector can flow to those requiring funds.

In this connection, it seems to me desirable to place in perspective the increasing role of some of the governmental funds, such as the Alberta Heritage Fund and the Saskatchewan Heritage Fund. The Alberta Heritage Fund in particular increased by $1.7 billion during the 1979-80 fiscal year to reach a total of $6.4 billion — a 36-per-cent increase over the previous year. The Saskatchewan Heritage Fund, which I believe is less than $1 billion, reported estimated revenue of $515 million in 1979-80. This rapid growth of the heritage funds has raised fears about a potential problem within Canada.

In my opinion, these concerns have been exaggerated. Although the heritage funds are increasing rapidly, they are still much smaller in terms of total assets than the Caisse de Depôt of Quebec, which has assets of $11.5 billion. The latter entity has been around for many years and, while it has not grown as rapidly as the Alberta Heritage Fund, it has not upset financial markets or the flow of funds. It has in fact played a useful role in the financing of Quebec and other Canadian business. All of these funds taken together are still much smaller than the total assets of the trusteed pension funds and the Canadian life insurance companies, which together have assets of more than $85 billion. While the relative increases in the heritage funds are spectacular, the absolute dollar value of these increases is only about one-fifth the size of the increase in assets of the pension funds and the life insurance companies.

I have heard expressed a concern that governmental funds, such as the Alberta Heritage Fund, might have their investments directly controlled by their governments in such a way that funds would not be available from them for worthy projects outside their provincial boundaries. This may be possible, but experience so far with the Caisse de Depôt indicates that they have not limited the employment of funds to their own province. I am optimistic that even the present unhappy political battles between Ottawa and Edmonton will not result in the flow of funds from the Alberta Heritage Fund being directed to purely parochial ends.

It might also be worth pointing out that to a large extent the growth of the Alberta Heritage Fund comes from monies that would otherwise have flowed to the oil and gas companies operating in that province. One could legitimately ask, if the funds had gone to those companies would they have been recycled through capital markets to meet the needs of Ontario businesses or would they have found some other outlet?

I think a more worrisome question is whether the financial and economic boom in the West might adversely affect rates of return on investment in Ontario, either absolutely or at least comparatively vis-à-vis rates of return in, say, the energy sector in Alberta. If this were to happen, Ontario businesses might well find themselves unable to compete with businesses elsewhere in attracting capital.

For Ontario industry to attract capital, it must be competitive with industry in the rest of Canada and more particularly with industries abroad: in the United States, in Japan, in Germany, and elsewhere. It must have the most advanced technology available; it must have a highly trained and efficient labor force; its industrial relations must be progressive; and it must be able to show a rate of profit adequate to attract capital.

To the extent that Ontario is able to meet the competitive challenge, I believe it will be able to attract the capital it needs.

The way in which it responds to the challenge will, however, have significant implications for the exchange rate on the Canadian dollar. The more successful Ontario business is the less downward pressure there will be on the Canadian dollar and the greater the possibility the Canadian dollar will appreciate. The less successful, the greater danger that the Canadian dollar could come under downward pressure in order to reduce Canadian levels of consumption until we are able to match the cost competitiveness of other countries.

There is another point that must be discussed in connection with the ability of Ontario business to attract capital at reasonable rates. The inflationary pressures that we have experienced in recent years are directly related to the high borrowing requirements of the government sector, particularly the federal government. Borrowings by the government sector have risen at an alarming rate and now occupy almost 65 per cent of the new issue market in Canada. In order for the private sector to meet its expanding capital requirements on manageable terms, the government's requirements must be reduced, at least as a proportion of the total market. Otherwise the cost of capital to business will be driven to such heights that it cannot afford to incur new debt.

I might add that government influence on the level of activity in capital markets is not confined to the volume of its own new issues. Government policies, such as the national energy policy, can have a significant impact on levels of demand for capital by the private sector. As David Slater pointed out, an energy policy that seeks Canadian self-sufficiency in oil by 1990 without sufficiently restraining demand runs the risk of pushing capital requirements to excessive levels.

On the other hand, a balanced energy policy, supported by federal and provincial governments, would permit the stimulative effect of energy development in both East and West to spread into the industrial heartland of Ontario and Quebec without pushing the cost of capital to intolerable levels.

An important effect of the inflationary environment prevalent in recent years is that major institutional investors have begun to shy away from fixed-rate, long-term investments and to insist upon at least shorter terms and higher rates and to a certain extent upon floating rate debentures and upon some form of equity participation. Thus, the debt structure of the private sector has perforce been shifted toward shorter term instruments. Industries in Ontario must, therefore, be able to pay off their debts at a faster rate than heretofore, even if this means higher prices for their products. This in turn has further implications for exchange rate policy.

Businesses in Ontario must also decrease their debt/equity ratios. Since their total capital requirements are not diminishing, this means they must increase their equity outstanding. To do so they must have profits to attract investors. They may also have to do more off-balance-sheet financing in the form of project financing as opposed to general corporate financing. Once again this emphasizes the need for profitability, and this time not only of the companies in general but of individual projects. Once again, also, the problem is not one of the availability of capital from financial institutions such as banks, who have become world leaders in project financing, but it is one of ensuring sufficient profitability so that the money will be forthcoming.

I believe the capital expected to be required by Ontario industry will be available, but the issue is rather whether Ontario industry will be able to be sufficiently profitable to attract it in the forms and through channels that the present environment requires.

Ontario's Strategic Interests

William A. Macdonald

William Macdonald is a senior partner in McMillan, Binch in Toronto. He joined the firm immediately after graduating from Osgoode Hall Law School in 1951. Mr. Macdonald serves as a director of Imperial Oil Limited and Victoria and Grey Trust Company and as a member of the Canadian economic policy committee of the premier of Ontario's advisory committee on the economic future.

Ten years ago, while I was an adviser to the Ontario Treasurer on the federal White Paper on Tax Reform, I delivered speeches on the state of tax reform to the Canadian clubs in Montreal and Toronto. They both dealt with two things: the federal policy approaches of the day and the Ontario interest and role. Those assignments required me to do then what I will do now, namely develop a strategic overview on Ontario's fundamental constitutional, political, and economic interests.

The strategic interests of countries or of major units in a federal system like Ontario change in time. But these changes may be expected to happen not all that quickly and within a framework of considerable continuity. The situation of Ontario during the past decade — or indeed during the past century — conforms with this expectation.

Certainly the world of 1980 is not the same as that of 1970. There have been, however, two important constants: the characteristic policy approaches of the federal government and the central role of the private sector in Ontario.

The federal government of 1970 was unilateral, statist, centralist, and insular in its major policy approach of tax reform. The federal government of 1980 is likewise unilateral, statist, centralist, and insular in the combined effect of its major policy approaches on the constitution and energy. It was my assessment in 1970 that this approach was not in Ontario's strategic interest. That view was shared by the Ontario government of the day and this had a very important influence on the final tax reform outcome. While many things have changed since 1970, I do not think anything has changed to alter the continued relevance and validity of that basic assessment for Ontario.

One important reason for that assessment in 1970 was that the basic strength of Onatrio has always been its private sector. This also has not changed. It is this strength that has produced high personal incomes, high standards of public services, and a significant surplus taxed through the federal government for redistribution to individuals and governments in other parts of the country.

This redistribution constitutes a drag on the Ontario economy. It has made Ontario more directly dependent than any other part of the country on Ottawa conducting policies that are favorable to private sector investment.

A number of things have changed, however, since 1970, both inside and outside Canada.

First, the world political and economic framework is less stable and more vulnerable.

Second, manufacturing, on which Ontario continues to depend, has become more fiercely competitive and subject to radical restructuring throughout the world. This is in response partly to energy developments, partly to third-world developments and partly to the varying willingness and ability of different countries to do what is necessary to become or remain efficient and competitive.

Third, there has been a massive shift of real resources inside Canada and between countries to the energy producers, especially the oil producers. For Ontario, this has added a second drag on its private sector, which has been aggravated by the negative effects of this shift on the whole world economy.

Finally, the Ontario political and economic dominance of most of the postwar period has faced increasingly assertive partners — first Quebec, then western Canada and now, just beginning but bound to grow, eastern Canada.

This is a lot of change. This much change in a short time always produces strains that are unavoidable and responses to reduce the pace of change that are understandable. Unfortunately, the one set of changes that would have made Ontario's adaptation to the other changes easier is the federal policy approaches I have already identified as inconsistent with Ontario's basic long-term interests.

Ontario remains the chief economic beneficiary of Confederation. Thus Ontario stands to be the biggest loser from a deteriorating Confederation and from an economy stalled because Canada's energy card has been so badly played. This is the broad setting for the observations I wish to make on where Ontario's constitutional, political, and economic strategic interests now lie.

First, on the constitution. It is natural that different parts of the country will have different perspectives and priorities. The common market is naturally more important to Ontario than to the West; the power over resources is vice versa. It is also natural that some people will prefer legislatures to the courts as the ultimate guardians of our rights and vice versa.

My own view is that we can survive successfully as a country and as a province within a considerable range of different outcomes on constitutional substance. I am much less satisfied that we will survive successfully if the process itself is felt to be profoundly illegitimate. For whatever the intrinsic merits or demerits of the constitutional program may be, there can be no benefit from it for Ontario large enough to offset the damage from what is seen as the use of naked political power based in central Canada to force constitutional changes on western Canada and preserve the status quo for itself.

Mutual trust is basic to ongoing relationships. Persistence in unilateral changes in the substance of the present constitution, as opposed to bringing the constitution to Canada and facing the constitutional music here at home, could provoke a rupture of minimum trust that could haunt us for generations. And as the only strong card western Canada has is resources, more and more westerners will inevitably be tempted to feel that if central Canada establishes rules of the game that say their card cannot be played at the bargaining table, then some day that card may, however regretfully, have to be played away from the Canadian bargaining table.

There is no doubt there could be a constitutional outcome so destructive of the ability of the federal government to act on acknowledged national matters that such a Canada would cease to be worth trying to

preserve. But there is no immediacy to such a possibility. Moreover, Ontario — under my view of the present amendment requirements and under all proposed amendment requirements other than for a referendum — could legally prevent such an outcome.

What is immediate is a proposal to force one particular constitutional agenda down a lot of people's throats. The results have already been destructive. The pursuit to the finish would be more so, and could at some point prove fatal. None of Ontario's strategic interests can be served by such an approach.

Second, on politics, there is a clear need for Ontario voters to start looking around for a federal party that stands effectively for national unity across the whole country. No such party exists today. The federal Liberal party fails in western Canada, primarily because of its approach to the issues. The federal Conservative party fails in Ontario and Quebec, primarily because it has not presented acceptable leadership. Ontario voters, when the threat to unity came from Quebec, have always been ready to respond in federal elections by supporting the federal Liberal party as the party able to represent Quebec in the federal parliament.

Now, as the alienation of western Canada from the federal government and central Canada accelerates and becomes more actively resentful, it will be important for Ontario voters to start thinking the same way about western Canada and the consequences of their votes for the future of Canada. The reason for this is simple. It is vital that western Canada as a whole not come to share the conclusion of some of their compatriots that separation is the only valid option unless they are willing to submit to the status of a permanent minority to be overridden by a central Canadian majority. The better approach will be for Ontario voters to make it clear that they want to be able to vote for a federal party that commands some measure of western support.

For the federal Conservatives, who have that command at the moment, the challenge will be to present leadership acceptable to the voters of Ontario. For the federal Liberals, who have seen their federal and provincial positions out West decline to the point of disappearance, the challenge will be to achieve a credible position on western issues. This, in my judgment, will be impossible in the absence of a fast reversal of the methods, as opposed to the objectives, of the national energy program, and an early return to the constitutional bargaining table, if the objectives continue to go beyond simple patriation of the constitution.

But whatever these federal parties do, it will be a dangerous moment for Canada if the next federal election repeats the last election in one respect — that the outcome is already decided when the western Canadians turn on their television sets at the time their own polls close and before their votes have been counted. This is a new political reality for Ontario voters to ponder. And there is nothing on the federal horizon today that suggests it will be easy for Ontario voters to handle when it comes.

Finally, on the Ontario economy, it is essential to focus on the strengths and advantages that Ontario possesses, as well as on its vulnerabilities and needs.

Ontario is located in a resource- and energy-rich country in the midst of major industrial and consumer markets in central Canada and the northeastern and central United States. This is the central advantage Ontario possesses. It requires two conditions to be maximized. The first is a well-functioning national economy, which in turn depends on a stable and viable Confederation. This is vividly apparent with energy, and was also apparent during the height of the uncertainties in Quebec. The second is mutually advantageous and constructive economic relations with the United States.

There are two classes of industries that can prosper under these conditions if federal and provincial policies are right. The first are manufacturing industries that are based on resources or that serve the resource industries. No better example exists than the Canadian steel industry centred in Ontario. There is no completely healthy steel industry in the world today. But Canada's is the only half-healthy one among the advanced industrial economies. It is not subsidized or government-supported, unlike most elsewhere; its capacity is growing, while the capacity of most other countries, like West Germany, Japan, and the United States, is declining; its employment is up, while that of other countries is going down, and so on.

Nor is this some kind of magical miracle. The reasons are there to be seen. The first is expansion based on high capacity utilization. The second is heavy and continuous capital investment in modern plants and retirement of inefficient facilities. The third is a generally good federal-provincial tax regime. The fourth is generally realistic labor relations.

Today this industry can sell steel into the United States at prices higher than in Canada and below the Trigger Price Mechanism set at the level of Japanese costs. And Canada's steel consumer industries have the cheapest steel. A healthy Canadian steel industry requires a continuance of the four conditions I have mentioned. It also needs two things more, constructive economic relations with the United States and an oil-self-sufficiency level of capital investment, which is steel intensive in its requirements.

These latter are jeopardized by the national energy program. The first four are threatened by poor national economic management. This may tempt the federal government into heavier taxation of the steel industry to restore its eroding fiscal position. It may also provoke wage demands that will weaken the favorable international competitive position of the industry.

Steel has two messages for Ontario. First, there is nothing inherent in Ontario's position that says that Ontario manufacturing cannot be internationally competitive. Second, the major threat to Ontario manufacturing is not from an economically vibrant western Canada charging world prices for its products. It comes from Ottawa policies, such as that on energy, that damage the private sector, constitute unacceptably bad economic management, and augur poorly for mutually

advantageous relations with the United States.

The second positive industry category is world-class services. Ontario — especially Toronto — now has the potential to be a competitive international and national service centre. Services not only provide high-paying and interesting jobs. They are increasingly the users of sophisticated manufacturing equipment that can also be made in Canada. This opportunity means a more open approach to foreign investment — a willingness to compete for a share in a larger pie than is possible in a protected market environment.

During the past twelve months the administration of the Foreign Investment Review Act (FIRA) has become strongly counterproductive to this requirement. This is hurting both services and manufacturing in Ontario. Two things seem to be happening. First, the delays in decision-making are unconscionable and inexplicable to anyone outside the process. Second, there seems to be a misconception of the nature of a vibrant services sector. Service jobs seem to lack the validity of manufacturing jobs. The synergism of an expanding, competitive services sector does not seem to be understood. Whatever the reasons, Ontario has lost many jobs during the past year which it can ill afford to lose.

In the past it may have been good enough for Ontario to play a rather passive role in relation to FIRA. I do not believe that will do for the future. Instead, Ontario should give the FIRA group within industry and tourism a mandate for a much stronger and active presence. Otherwise the Ontario economy and Ontario jobs will continue to suffer.

One final observation on economics. Ontario voters have an instinctive feeling there is a need for a strong central government to manage the economy and maintain a common market. I do not believe that instinct is wrong. I do believe there is a need to analyze what constitutes a strong central government. First, the evidence is widespread that the ability of centralized state bureaucracies to manage or control economies is inherently limited, no matter how good the people in charge may be. A Pentagon-style approach to economic powers is thus a fundamental misconception. Second, the fundamental sources of economic mismanagement in Canada in the past decade are unrelated to a lack of constitutional power. They relate to a political unwillingness to be fiscally responsible and to a political penchant for intrusions into private-sector markets.

Finally, an ability in a country like Canada to have policies that are minimally acceptable across the country is a vital reflection of its true strength. That is, Ontario's economy needs a united Canada, a well-managed national economy, and a vigorous private sector. These, however, are less constitutional matters than they are matters of federal politics. Conjuring up competing images of weak and strong central governments can, in the present circumstances, only obscure where the real problems lie.

Let me sum up my perspective on the imperatives for Ontario for the rest of this century.

On politics, Ontario people must revise their views of Canada to reflect the fact Ontario can no longer have the same dominance in Confederation. Moreover, it can expect to find itself in a minority position, something it has not experienced since the last war, but something the other provinces often experience. This means at the national political level it must reassess what it expects from national parties and leadership and who its long-term allies need to be.

On the constitution and federal-provincial relations, Ontario must continue to try to see Canada whole, because Ontario remains a prime economic beneficiary of Confederation. And it needs good central economic policies favorable to private-sector investment if it is to continue to do well. But it must not inflate what is *an* Ontario provincial perspective as being the equivalent of *the* Canadian perspective.

It must learn to think again as a province, not as a stand-in for the federal government, as happened in the Robarts era. And the rest of the country will have to forget the spacious Robarts-era of an Ontario with the ambition and ability to be Mr. Canada at a time when the federal government of the day seemed too weak to play the role.

On economics, Ontario must adapt to a competitive and changing world. This means eschewing protectionism in all its forms, including economic nationalism and unrealistic oil prices. It must build from where it is. Today this means the private-sector services area. And it means an internationally competitive manufacturing sector that builds upon and serves the national development of natural resources and the national and international need for the kinds of high-income services Ontario can now provide.

And it must act — and insist that the federal government of the day act — in the recognition that constructive economic relations with the United States are central to Ontario prosperity.

Within a few months we will have governments with fresh mandates from Ontario and Quebec. That will be the time to get from the "here" of the constitutional and energy disasters to the "there" of a future that reflects these Ontario imperatives. How is this to be done? I suggest there are three central elements.

First, no one in Canada, in their hearts, can really believe we are on the right track on the constitution or on energy. So the first step is to do what Premier Davis called for in a speech in November, 1980, which has not received as much attention as it might.

> "Let no one in Ottawa or in Queen's Park or in Edmonton be so obsessed with their own agenda that they fail to understand the importance to the other players of their agenda and their responsibility. It is surely a time, in the interest of this country and its future, to attempt a new beginning."

As a minimum, it would seem that there can be no new beginning without an abandonment of the "unilateral way" by the federal government. To persuade the federal government of this should be the first order of business of the newly elected Ontario government.

Second, one of the wise observers in this century of

the history of mankind, English philosopher Alfred North Whitehead, said that "progressive societies are those which most decisively have trusted themselves to ... the way of persuasion" and that "Civilization is the maintenance of social order, by its own inherent persuasiveness as embodying the noblest alternative. The recourse to force [which Whitehead notes includes governmental compulsion], however unavoidable, is a disclosure of the failure of civilization ..."

The paths we are now embarked upon seem to be those that will produce the failure of force, not the strengthening of the civilization that is Canada by successful mutual persuasion. What seems much less clear is that this failure of recourse to force is unavoidable, in terms of the inherent intractability of our problems. So the second needed element, I suggest, is to get back to the path of persuasion, now that we have all seen how very unsatisfactory the force alternative can be.

Finally, the best in Canadian national leadership has always involved some generosity of spirit in its response to the divisions and tensions of this far-flung and varied country, where people are widely separated from each other and have had very different experiences as members of the same country. This generosity of spirit has seemed to be singularly lacking from the quarter where it is most needed and from where it should most naturally come. It is badly needed now.

Ontario—its people and its government—no longer has the same relative economic strength to be generous as it had for a period of perhaps 20 years from the early fifties to the early seventies. I see no basic reason, however, why Ontario cannot have the strength to contribute a greater generosity of spirit to our common affairs and to insist that those who represent it at Queen's Park and Ottawa do the same.

It would be greatly in its interests for Ontario to do so. For Ontario cannot do well in a country in which major segments believe that for as far ahead as they can see, their interests will never get a fair hearing and, at the end of the day, will always be subjected to the tyranny of the majority. Premier Allan Blakeney is right that on the deepest issues Canada has always survived by two majorities, not one. Ontario must accept the legitimacy of that requirement.

In one sense, whoever is premier after March 19 will lead a less confident Ontario than that led by Leslie Frost and John Robarts. But that confidence was in part falsely based on conditions that would pass.

My final perspective, then, is that Ontario now has the opportunity and challenge to earn a more lasting confidence if it faces and adapts in a realistic way to the unavoidable political and constitutional changes within Canada and the major economic changes, both inside and outside Canada, that reflect the relative change in the cost of energy and the fundamental, ongoing restructuring of much of the world's manufacturing. Ontario has a long history of successful political and economic adaptation. If I were a betting man, I would bet Ontario will successfully adapt again.

Labor's Response to the Skilled Manpower Crisis

Clifford G. Pilkey

Clifford Pilkey is president of the Ontario Federation of Labor, Toronto. His activities in labor extend over 25 years. Starting in General Motors of Canada in 1950, Mr. Pilkey rapidly rose to top leadership positions. Elected president of the OFL in November, 1976, he has lectured in universities and community colleges, served as an MPP for four years and, in 1967, was recipient of the Centennial Medal for his service to Canada.

I am going to offer a labor perspective on meeting the admitted crisis caused by our persistent and growing skilled manpower shortage. Despite the recent flurry of press attention, we have had a skilled trades problem in this nation and this province for literally generations. As early as 1913 the royal commission on industrial training and technical education warned that our education system was not equipped to provide the skilled workers and technicians needed for a rapidly industrializing economy.

In recent times the Ontario government launched major studies of the manpower problem in 1963, 1968, and 1973. Yet, as with so many other economic problems in Canada, we seem unable to move from a state of awareness to a state of action. Had we been able to translate all that mental energy into physical action, I dare say we not only would have solved our skilled manpower difficulties but might have reached the Shangri-la of a full employment economy!

A little more than a year ago our provincial government launched a new manpower commission under Don Pollack to determine where this province should be heading. Organized labor in Ontario has some pretty definite ideas of its own that I will outline now.

The word crisis is being increasingly applied to our skilled manpower problems and, despite the temptation to resort to colorful and exaggerated terms, I believe this adjective can now be legitimately applied to our current situation. Labor certainly accepts this. Business has come to accept it. Government now acknowledges the crisis exists. In the light of two recent studies one could hardly assume otherwise.

A federal government report has predicted that Ontario will be short 35,000 skilled workers by 1985. When we consider that one skilled worker generates spin-off work for five semiskilled or unskilled workers, we are in fact looking at an employment shortfall of 175,000. To put this figure in perspective, I note the official numbers of jobless in Ontario — which we consider to be conservatively calculated — now are 270,000. I would suggest that none of us should be prepared to accept additional unemployed when such a situation can be avoided.

We know that the lack of needed skills is already costing our economy deals in lost business opportunities, reduced production, shelved expansion, and inability to cash in on the new high-technology industries that will make or break our attempts to become a truly diversified manufacturing economy. Without skilled workers there can be no expansion of our industrial base. Without this expansion there will be no jobs for the tens of thousands of new workers who each year enter the Canadian job market.

The second recent survey I make mention of was the now famous Economic Council of Canada (ECC) study of the manpower needs of just less than 1,400 Canadian companies. In my view the most telling point in that study is that while fully half the companies surveyed complained of skilled personnel shortages only one-third provided job training in excess of three months and only one-fifth longer than a full year. At the same time just one company in seven employed apprentices of any kind in the 12-month period leading up to the ECC survey.

While an outsider might well find this example of industrial masochism rather astounding, it is perfectly consistent with the traditional laissez-faire approach by both business and the government to the provision of skilled labor. Industry has long maintained that its job was to produce goods and services. That decades of objective reality have largely failed to change this view is a tribute to the degree to which business and the "old-line" politicians who share the corporate view have clung to the myth that there exists in this country a free-enterprise market economy.

There is something hideously wrong when the federal government alone can support industrial training to the tune of nearly $1 billion a year with such meagre results. For all the government programs, for all the individual efforts by individual companies in individual circumstances, we in Canada are still able to train a mere fraction of the skilled workers we in fact need to survive as a major industrial nation.

So where have we gone wrong? I would first point to traditional practices of our large corporations. Their attitude toward skilled manpower supply was akin to the slavers who used to plunder the Gold Coast of Africa. Rather than expand the numbers of skilled workers, big business recruited from the existing pool on both a worldwide and a nationwide basis. This exercise took two forms.

First, for three decades following the end of World War II our large industries recruited heavily abroad. Why train our own people, ran the argument, when it was cheaper to buy the finished imported model right off the shelf? Predictably, however, a revitalized European community became progressively more attractive to its own skilled tradesmen than a Canada attacked by the twin problems of high inflation and mounting unemployment.

Second, and most tragically, large industries were and are quite content to allow the smaller company to expend the human and financial resources to train a man or woman in a particular trade, and then pirate away those individuals with the greater wage and benefit package possible with greater economy of scale. Small wonder medium and small business is so unwilling to unilaterally launch skills training programs!

Two economic facts of life show us the price we have paid for these shortsighted actions: only one in four skilled workers in this country was actually born here, and nine out of 10 are more than 40 years of age.

Lamentably, these practices still go on at a time when thousands of our young people have shown interest in entering apprentice programs. Yet to this very day many businesses balk at the costs of apprentice training. They look at the time — as much as five years — it takes to train an apprentice, the required supervision

by journeymen, the loss of productivity, and the possibility of turnover, and say "no thanks."

Yet when it comes to involving the government in a direct and meaningful way in the provision of skilled labor, the attitude is both myopic and contradictory. For years the government was told to restrict its role to footing the bill for employer-sponsored training. This is a quaint, if somewhat descredited, panacea.

In our minds government-funded employer-sponsored training is the worst of both worlds. The lack of planning and inefficient training inherent in such schemes are a gross waste of taxpayers' money. And workers find they are often trained not in a basic skill but in a more narrow skilled function that precludes both greater upward mobility within the plant and lateral mobility between jobs. Such fragmentation leaves workers semiskilled and does little to meet the problem of shifting supply and demand in skilled trades.

Workers taking employer-sponsored training under the assumption they will have a recognized marketable certificate often find their "diploma" is worthless outside their particular work place.

New Democratic Party MPP Bob Mackenzie recently told the legislature of one constituent who signed up for a 1,440 hour apprenticeship training program at Hamilton's Mohawk College. Told he would receive 600 hours' credit toward a Ministry of Labor approved certificate, he learned six months into the program that there had been an "error" and that his diploma would not be recognized.

Such programs dupe students into believing they will receive practical training leading to permanent employment.

If we are to maintain the mobility of our labor force and supply rapidly changing technological change, we believe that five ingredients are essential. First, we must ensure portability based on a broad-based skill training given to tradesmen with periodic upgrading. Second, trainees must be given effective recognition for their training that employers will be able to accept as a guarantee of achievement level.

Third, all training programs must ensure the trainee of the opportunity to complete the training with the certainty of registration and certification of that training upon completion. Fourth, to further encourage mobility in instances where regional shortages occur, governments should be prepared to aid workers in moving from one location to another.

Finally, federal and provincial governments should immediately establish a central, mandatory registry for manpower needs to guarantee effective dissemination of labor market information to working people.

Nor is the labor content with the high academic content of many skilled training courses offered through our community colleges. A balance must be struck between standardized courses and on-the-job experience.

The federation I represent has formulated a fairly precise response to the skilled trades crisis, and I would like to touch on its salient points. First, we believe that the government should cease to be viewed, and indeed cease to view itself, as a primary source of training funds. We accordingly support the plan put forward by the commission on educational leave and productivity, which is itself based on the employer levy concept already widely used in western Europe.

Under this scheme, employers would have the choice of spending 0.5 per cent of payroll on training and development or paying an equal amount to the government in the form of a training levy. Companies that chose to become involved in manpower training would be allowed a tax write-off somewhat greater than their costs.

If a company spent nothing on training, the levy would go to the government for a fund to help finance training programs and to reward companies that had undertaken such programs. This plan would not, however, preclude supplementary government financing of training programs when and if needed.

And the government, not business, would establish training guidelines. We believe the province should move to recognize all trades currently in existence and undertake the development of new trades to meet new technological advances. All such recognized trades should be certified and regulated according to provincial and, where possible, national standards. All trades should have a detailed training program including course content, hours, and the ratio of classroom instruction in the community college to practical application on the job. These programs should be mandatory, and delivered through trades/sector training committees established by the government. These committees would be empowered with both policy-making and administrative responsibility to ensure adherence to standards.

Local committees would be struck as adjuncts to the sector committees to identify local training needs, communicate those needs to the sector committees, and assist sector committees in the delivery of training. All local committees would be struck on a one-to-one ratio of labor, management, and government/educator representatives. The labor committee members would be appointed by local labor councils in co-operation with the unions interested and involved in the identified trades.

We believe such a scheme to be both practical and economically realistic. It is also, in our view, the only path out of the industrial quicksand into which we find our economy sinking.

We have welcomed as a step in the right direction the Ontario government's recent announcement that it will open a $1.9 million Centre for Precision Skills Training as a pilot project in northwest Toronto next September. We are, however, less than pleased that labor has been largely excluded from the consultation and planning process.

There is an oft-repeated accusation of labor opposition to greater apprenticeship training. Far from being a stumbling block to the expansion of such programs, the

labor movement has, in fact, been pushing for increased apprenticeships. We can read the figures, too.

We can see perhaps better than either business or government that skilled trades are the key to both greater overall employment and the growth of our own organizations. If there are limits placed on the ratio of apprentices to journeymen it is to protect both parties. A high ratio of apprentices to journeymen will result in a poorly trained apprentice. A low ratio will further restrict the supply of new skilled tradesmen, with disastrous consequences for dependent semiskilled or unskilled labor.

While we will continue to insist on the right to negotiatate such ratios, we would welcome the establishment by government of province-wide sectorial standards such as are currently set under the Apprenticeship and Tradesmen's Qualification Act. Without such guidelines, nonunion employers might well use training schemes as a source of cheap labor that would in fact abuse apprentices. Certainly no union objects to increased apprentice training, particularly when our own members and even our own children are the ones who stand to benefit.

Placed beside the past sins of both government and business, labor has a fairly consistent and positive approach to the issue of skilled trades manpower. We are both eager and ready to work toward immediate improvement of an admitted critical situation.

Ontario's Energy Resources

O. John C. Runnalls

John Runnalls is a professor of energy studies in the faculty of applied science and engineering at the University of Toronto. After receiving his doctorate in metallurgical engineering from the University of Toronto, he worked for 20 years with Atomic Energy of Canada. In 1971 Mr. Runnalls was appointed senior adviser, Uranium and Nuclear Energy, with the department of energy, mines and resources and served as executive vice-president of Uranium Canada Limited for five years.

We in Canada are fortunate in being particularly well endowed with a host of indigenous energy sources. In fact, Canada probably stands unique in the industrialized world as the only country capable of developing and maintaining in the long term an energy supply system that could supply all our domestic needs. On the other hand, it is a geographical fact that many of our fossil fuel and undeveloped hydraulic resources are found at great distances from the main consuming areas in the country so that economic penalties are incurred in their development.

So far as Ontario is concerned there are other difficulties as well, resulting from the fact that very little coal, natural gas, crude oil, economically recoverable oil shales or oil sands, and new hydraulic sites at reasonable transmission distances exist within the province. Hence, Ontario depends to the extent of nearly 80 per cent on importing energy from outside jurisdictions.

This is a tenuous position, to say the least, when one considers that half of that import is crude oil piped in from western Canada and purchased currently at less than half the world market price. The present consumption rate of what some have referred to as that "noble liquid" is about 600,000 barrels of oil per day. Nearly 60 per cent is consumed in the transportation business while about 40 per cent is incinerated in the industrial, commercial, and residential sectors, much of it for space heating.

There have been recent shocks and there will be future ones resulting from increases in oil price. Under the national energy program announced on Oct. 28, 1980, domestic oil will rise 23 per cent in price in 1981 as a result of new taxes and increases in the wellhead price.

The average Toronto city-gate price for natural gas also will be 23 per cent higher in 1981 than in 1980. These increases are more than twice as high as that expected for electricity. But even before such price hikes for fossil fuel are fully implemented, electricity is now competitive with oil in most parts of Ontario for space heating. Natural gas is still somewhat cheaper than electricity, but within two or three years is not likely to be.

Thus, whether one is focusing on new or replacement installations in industry, commerce, or the home, one should look very carefully at electric heating as a most attractive alternative. With electricity, over say a 10-year span, overall costs of installation plus energy are likely to be less than those incurred through the continued use of imported fossil fuel.

Furthermore, one would be reducing Ontario's dependence on non-indigenous energy sources while moving the province into a more electrically intensive high-technology society. In addition, such a strategy would result in conservation of those extremely valuable resources, oil and natural gas, saving them for truly essential uses.

Our indigenous resources include water power, uranium, and sophisticated nuclear reactor technology. In particular, we have a significant economic advantage with our present Candu reactors and we should capitalize on it. The Candu nuclear reactor has become an important component in the Ontario Hydro system over the space of a relatively short time period. The first small prototype reactor, NPD, went into service in 1962. Less than 10 years later, in 1971, the first of the four units at Pickering's 2,000-MW station was commissioned. Today Ontario Hydro has an installed nuclear capacity of 5,270 MW, and an additional 12 reactors with a planned output of 8,612 MW are under construction.

Although nuclear units provided only 22 per cent of the utility's generating capacity in 1980, their energy contribution was nearly 36 per cent of the total output. In short, because of proven reliability and superior economic and technical performance as base load stations, Candu reactors generated more energy in 1980 than either hydraulic or conventional thermal plants. Within a decade the nuclear contribution to Ontario Hydro's energy output could grow to 55 per cent.

The record clearly shows that the Candu-PHW type of nuclear electric generating station has exceeded the performance of any other commercial reactor type in the world. The capacity factors for 1980 ranged from 74.1 per cent for Pickering 1 to 93.7 per cent for Bruce 2, putting the eight units of Pickering and Bruce at the top end of worldwide commercial reactor ranking.

Unquestionably, Candu performance has been outstanding and power has been delivered at total unit energy costs little more than half those from Hydro's coal-fired plants of the same vintage. Thus, it is clear that nuclear-generated electricity will play an important part in the future growth of Ontario Hydro.

Ontario Hydro is the largest corporation in Canada and the second largest utility in North America. Its fixed assets in 1980 were $16.5 billion and its operating revenues were $2.8 billion. As Hydro moves to more than double its installed nuclear capacity during the coming decade, benefits are likely to flow to the uranium and nuclear industries, many of which are located in Ontario. The foreseen favorable power rates should aid those electrically intensive industries that already exist in the province.

Furthermore, many new industries could be established here because of the availability of a secure supply of low-cost electricity. New applications for electricity use would well be developed in the areas of transportation, communications, metallurgical refining, and chemical processing. One aspect of this latter field is in the area of hydrogen production by electrolysis using off-peak power at nuclear generating sites.

In 1980 the government of Ontario established a Hydrogen Energy Task Force with the objective of determining hydrogen's role in Ontario's energy future. Although the report from that task force is not expected for a few months, the indications are that the results from the analysis will be encouraging.

For example, initiatives have been taken within the past few weeks by the premier and the minister of

energy aimed at the establishment of a Canadian hydrogen technology centre in Ontario. Such initiatives could well form the basis for developing the technology required to introduce hydrogen-fueled vehicles on a meaningful scale by the 1990s.

The availability of large volumes of hydrogen and oxygen from a Candu-powered electrolytic plant should also prove of benefit to both metallurgical and chemical industries. Already the Ontario Energy Corporation is developing plans to utilize steam and hydrogen from the Bruce Nuclear Power Development for the production of ethanol and methanol from biomass.

Such innovative efforts and concentration of technical skills are essential if Ontario is to become significantly less dependent on imported energy sources during the coming two decades. Nonetheless, by the turn of the century there will still remain an uncomfortable reliance on oil and natural gas from outside jurisdictions. This dependence should provide the necessary motivation to drive all of us into even further efforts to become more self-sufficient.

The Foreign Investor's View of Canada Today

Richard J. Schmeelk

Dick Schmeelk is an executive partner in Salomon Brothers, New York. He joined his firm in 1946 and was appointed manager of the Canadian department in 1956. He was admitted as a general partner in 1966, appointed to the executive committee in 1973, and placed in charge of the Mexican department in 1979. He is responsible for the investment banking needs of corporations and government entities and is a member of the executive committee of the National Planning Association of the United States and a director of the International Executive Service Corps.

During the past five years my firm has managed or co-managed nearly $15 billion of Canadian debt and equity offerings in the U.S. and international markets. Approximately 2.7 billion of this amount was for the province of Ontario. Ontario, with its "AAA" rating and constant borrowing pattern, has enjoyed a favored climate for its needs. Foreign investors are well aware of Ontario's strong industrial base.

I mention the above figure of nearly $15 billion to highlight the great demands Canada has made on foreign markets, particularly the U.S. capital markets.

I am neither brave enough nor so foolish as to compare Ontario to the other provinces in Canada. My firm acts as manager or co-manager for six provinces.

Many firms such as ours, U.S. and Canadian alike, have in the past waved and will continue in the future to wave the Canadian banner throughout the foreign investment world. Our roles have been to inform investors of Canadian quality, economics, and politics and expand the number of investors buying Canadian securities and to maintain strong liquidity in Canadian debt and equity issues.

Our success in selling Canada is quite naturally dependent not only on what I have mentioned but on the good management of government affairs by Canadians.

We have all worked to see that Canadian borrowings in the United States (where the bulk of Canadian borrowing has been) are as close to comparable U.S. rates as possible. In other words you have enjoyed a more privileged rate than any other foreign borrower in the U.S. market. The Canadian internal market has not been large enough to accomodate all your debt and equity needs.

As judged by Moody's and S. & P., the government of Canada is given the highest quality rating, "AAA," by both services, as are Alberta, British Columbia, and Ontario. Canada as a whole has been a remarkably good place to invest and in recent years, when many credits in the United States have been downgraded both in the public and private sectors, Canada, with a few exceptions in the resource areas, has either improved or held credit ratings. Ratings have significance both as to availability and interest savings.

One might question whether the experience of quality deterioration in the United States could happen in Canada. I certainly hope not, but at the same time I might repeat the U.S. submarine motto, "eternal vigilance is the price of security," or to translate directly—is the price of your securities.

This leads to my main point. We who sell Canada abroad sell the country as a whole. Investors then shade their preferences within a strong jurisdiction and make various quality judgements. We do not sell East against West or vice versa. Surely today all Canadians must realize strong energy developments in the West are the locomotive that feeds the industrial East, especially Ontario.

Foreign investors are expressing concern about a variety of Canadian disputes and policies. They are concerned about the N.E.P. proposals: its economic effect on Canada present and future, what it means to Canada's ability to reach self-sufficiency by 1990 or thereabouts, what it means to Canada's balance of payments. They are concerned about the ground rules for investing in Canada present and future.

They are also concerned about the oil and gas industry, its cash-flow problems, its ability to maintain quality and raise the necessary debt and equity to insure Canada meets its stated energy goals. Foreign investors are concerned about the division between the federal government and so many of the provinces on the Constitutional issue. The regional disputes are a matter for concern, and what appears to be a growing division between the government and business is another matter for concern.

Now, lest I be described as an alarmist, let me say I have seen many things happen in Canada in the past 25 years of following its affairs. Some of these issues of concern on the part of foreign investors were federal-provincial disputes, provincial resource disputes both with the federal government and private industry and with investors-expropriations as well. Always there has been compromise and Canada has been a good place to invest.

I have raised a series of concerns because I think at this time in history Canadians should pause and think more clearly not only about their internal disputes but about their country as a whole East-West, Constitution, federal government-provincial government, and business relations and, finally, the foreign image of your country and your place and duty in the world. Surely you can work together to lower the rhetoric, increase your understanding of each other, and solve the serious problems the nation faces today.

I have just returned from visiting several European countries. They all are at present disturbed by economic problems, high unemployment, social unrest and, lastly, serious energy shortages. One can not help but be impressed by comparison with the great strength of North America.

One can not help but be impressed with the great potential for Canada, strong in resources and potentially energy free. One, however, is not impressed by the projected savings in energy efficiency for the free world when one looks at projections in Canada for the year 2000. You have as a nation so many strengths to make great things happen. The future is in your hands. Your many friends wish you the wisdom for success.

An Industrial Strategy for Ontario

John J. Shepherd

John Shepherd is chairman, Leigh Instruments Limited, Ottawa. He founded the firm in 1961 after spending six years in the Canadian electronics industry. Mr. Shepherd became a member of the Science Council of Canada and served as executive director from 1974 to 1978 and then as vice-chairman until 1979. He is the former president and a current director of the Canadian Institute for Economic Policy.

Almost all dissertations on industrial strategy seem to concentrate initially and primarily on content: on issues of specialization research intensity, purchasing policies and practices, import replacement, and so on. They end up by emphasizing that the only missing ingredient is political will, expressed as the absence of any sustained, intense, concerted commitment to the revitalization of the industrial economy. Wistful references to Japan, Germany, and France, or indeed to any other nation demonstrating an ounce of collective sanity, are frequently advanced and just as frequently dismissed as culturally inapplicable to the Canadian mosaic or morass.

I think that we can now afford to reverse this ritualized format. Once one gets rid of the sectorally specialized rhetoric there is an unusual consensus as to prescriptions. Yes, we should push for high technology and more research intensity. Yes, we should protect domestic growth industries with non-tariff barriers. Yes, we should develop import replacement programs.

All these positive adjustment policies and enhancement mechanisms are known, accepted, practised vigorously elsewhere, and require adoption and adaptation in Canada. Two dozen sector task forces, the Hatch Committee, and a spate of reports have all authenticated these solutions and they do not require repetition here.

I would, therefore, prefer to start with the issue of political will, because it lies at the heart of this theme of the perspective of Canada and Ontario.

With some notable exceptions, Canadian industry is by no stretch of the imagination a paragon of competitive excellence. The reasons for its weakness, in an increasingly unforgiving trading world, are numerous, ranging from structure to scale to management to research intensiveness and so on.

If, however, there is one major reason external to its own competences to which it can legitimately attribute its difficulties, that reason must be the failure of Canadian governments at all levels to provide a sustained and stable environment within which industry can operate. The contest between the various governments of Canada as to which, albeit unintentionally, will do the most harm to the economy is, to borrow a phrase, the squalid constant of the national perspective. Unless or until it is resolved, all specific industrial policy initiatives are predictable failures.

The energy scene is the most obvious example of major opportunities stifled by divisions. Balkanization of the Canadian market is another. The impression develops, in these times of confrontational politics, that the need to differ and to publicize difference is the operative political priority.

Coherence of industrial policy is thus by definition a nonstarter. The economy cannot function in such an environment.

In this context, the core element of any Ontario industrial strategy vis-à-vis the nation as a whole must be the resolution of this dilemma of continuous confrontation.

A second aspect of the strategic industrial perspective is the clear recognition that the central Canada industrial system has had its day. The single most divisive issue in this country lies in the perception that "regional" Canada has been and continues to be sacrificed to the Ontario/Quebec heartland, with the willing connivance of Ottawa. The "crow" rate and the migration of Maritimers to Toronto are colonial issues of both the national economy and the Canadian psychology.

No industrial policy in and for Ontario or Canada will work unless, both evidentially and substantially, that issue is resolved. For as long as it exists, every initiative from Ottawa or Queen's Park is seen as an attempt to shore up and cement a structure that is regarded as fundamentally inequitable.

To add injury to insult, the central Canada system has itself failed to sustain the economy, rendering the inequities unsuccessful as well as unjust. Manufacturing is the Achilles' heel of the economy; the branch plant system is uncompetitive, lacking in entrepreneurial vigor and technological momentum. The engineer from Saskatchewan moved first to Toronto but then to the U.S. aerospace industry. The auto and defence industries, structured to support Ontario and Quebec, are both now in trading deficit and sadly lacking in managerial strength. We have, astonishingly, both robbed Peter and ruined Paul.

It is for these reasons that the West and the Atlantic provinces identify the opportunities to put an end to the internal colonial system with the regional development of high technology growth industries: petrochemicals and medical research in Alberta, rural applications of Telidon in Saskatchewan, bubble memory development in Manitoba, and ocean technology in Newfoundland. The push for brain industries is the theme of all provincial industrial strategies, and if that means hiring away skilled manpower from central Canada then so be it.

Against this background of a nation surviving in spite of itself and threatening to suffocate in its own wealth of resources, Ontario has committed political errors of strategic proportions.

The fear of the impact of the Tokyo round of GATT on the industrial base, which was evidenced in the provincial submission to Ottawa, was amplified to almost hysterical proportions by the estimated effect of rising energy costs. The ostrich-like consequence of an alliance between Queen's Park and Ottawa to avoid the inevitability of real energy prices has hardened historic suspicions of the self-serving central axis. It has also pushed Ontario into a defensive position that belies its potential.

No one is ever going to believe that Ontario is a have-not province. Postures based on resistance to regional industrial development are strategically unsound, politically shortsighted, and unstatesmanlike in the context of the Canadian condition.

It is, however, questionable whether such a posture is advantageous even within the narrowest definition of

self-interest. It is quite doubtful whether Ottawa can really deliver, in industrial policy terms, its part of any bargain with Ontario. There is as yet, for instance, little evidence of long-awaited, adequately supported industrial strategy from the federal government.

There is considerable evidence that, in the much needed thrust toward high technology and research intensity, from which Ontario should be a major beneficiary, Ottawa is backing away from previous commitments in the face of fiscal pressures. The recent ministry of state for science and technology announcement, for instance, boldly sustained the target of 1.5 per cent of GNP to be spent on research and development, but in doing so abandoned the earlier target date of 1983.

In the same sleight-of-hand, the bulk of the responsibility for the achievement was generously handed to the private sector.

There are, therefore, strong grounds for suggesting that while Ottawa may be of assistance, for obvious reasons, in deferring the decomposition of Ontario's traditional industries, it is not likely to be of much assistance in building Ontario's future.

I will begin to believe that I am wrong on this point when the federal government commits $200 million to Telidon and $27 million to Chrysler – the very reverse of its current stance indeed. It may be that the most effective role for the federal government may lie in the promotion and support of interprovincial industrial joint ventures – a deliberate and conscious attempt to unite rather than divide.

For all these reasons the first of Ontario's imperatives is that it must reorient its strategy, at the highest level, toward an accord on industrial policy with its sister provinces. To get the climate for such a dialogue right, it must move into line on higher energy prices, based on the aggressive philosophy that there is more to gain for Ontario from higher levels of national economic activity than there is from artificial cost shelters.

Given that conversion of energy policy, Ontario must, at the same time, express recognition that its own industrial drives, toward the new knowledge-intensive industries, can and will take place only within a system of balanced industrial development for the nation as a whole. The Canadian common market only works when the resultant benefits are evenly distributed.

By "balanced industrial development" and by "benefits" I mean the creation, in regions, of equal opportunities for skilled employment through the creation of skill-intensive industry. That aspiration cannot be denied, is not necessarily inimical to Ontario's interests, and is, I feel, susceptible to a fair amount of regional specialization and to a great deal of optimism through interprovincial co-operation. If we do not hang together we will assuredly hang separately.

Ontario must recast its broad strategy vis-à-vis other provinces. The reorientation of strategy demands a measure of courage, a stroke of statesmanship, an act of political will.

Within the narrower perspective of content the province's industrial policy appears to be taking shape. The stream of announcements from Queen's Park encompasses almost every conceivable facet of a modern industrial policy:

– Mr. Grossman's call for a Canadian common market, which is appealing, although somewhat weakened by the rather self-righteous attribution of specific non-tariff barriers to other named provinces;

– Mr. Miller's BILD program to stimulate industrial leadership and development;

– The EDF and "IDEA" programs to promote employment and innovation;

– The strengthening of made-in-Canada purchasing policies.

So many programs and initiatives command a strong commendation for the imagination and enthusiasm of provincial policymakers.

The rich array of programs appears currently to be coupled with a rather anemic lack of substance. The announced expenditure of $750 million in new programs over five years is an initiative; at nine-tenths of one per cent of the provincial budget it is not of heroic proportions. Ontario must concentrate more energy and expenditure on investing in the future and disinvesting in the past. It already has levels of excellence in communications and aerospace that are winning international markets. Those footholds have to be widened and strengthened. Telidon is an obvious example; energy technologies may be another. We will succeed to the extent to which we concentrate. In an age of microprocessors, robotics, chips, and clones, marginal advance is not enough.

We should, I think, realize that the nature and intensity of international competition are such as to accord a very distinct and damaging consequence to the second-best effort.

In this national struggle for economic well-being, Ontario by virtue of its experience and resource, has a pivotal role to play. It has to rediscover its strategic interest. It has to renegotiate its partnership with its sister provinces within that new national framework; it has to build its own knowledge-intensive industrial future.

It is of pressing importance to Canada and to Ontario that we see more substantial commitment to this creative building process.

Ontario and Canada: The Priorities Now

Stuart L. Smith

Stuart Smith is the leader of the opposition in the Ontario government. He graduated in medicine from McGill University and after postgraduate studies in psychiatry joined the faculty of McMaster University Medical School. He was elected to the Ontario legislature in 1975 and leader of the Ontario Liberal Party in 1976. Dr. Smith was re-elected in 1977 and assumed his present responsibilities then.

I am particularly pleased to find that, right across Ontario, people are concerned about Ontario's economic future. It's an issue that has occupied my attention more than any other during my time in politics. And it is clearly the most vital, most pressing issue facing our province today.

People in Ontario are worried not only about Ontario's future, but also about their personal futures. I think that we are all worried about whether there will be opportunities for our children to find work in Ontario. We are all worried about the effects of a weakened tax base on the funding of social services and health services and education. And I find that many Ontarians are worried about their own career prospects in a slumping economic environment. And they wonder whether they will ever be able to keep pace with inflation.

It is important, while we are thinking about Ontario's economic future, that we remember the very personal way in which the actions of governments and industry affect the lives of people in Ontario. While we look at the mega-projects and the broad strategies it's important for each of us, as leaders in our respective fields, to understand that our objective is to overcome the uncertainty and unease that have intruded into the lives of men and women across this province and to restore their faith in Ontario's future and their confidence in our ability to become a leader in Canada again.

Let's begin by looking at our present position. We have, still, the largest economy in Canada. It's an economy which was originally based on our bountiful natural resources: our fertile land, our precious ores, the forests of the north and east. In this century manufacturing has become the centrepiece of our economic life; we have been the industrial heartland of Canada.

In recent years, however, our position of leadership has been slipping. Particularly in the past decade, the rate of growth in Canada's other provinces has outstripped our performance here in Ontario.

In the 1970s, according to a report issued in 1980 by the federal department of regional economic expansion, the per capita growth rate of Ontario's economy, as measured by Real Domestic Product, was less than the growth rate of every other province in Canada. The same report tells us that Ontario also ranked tenth and last in:

- the growth rate of manufacturing output;
- the growth rate of total goods production;
- the growth rate of per capita personal disposable income;
- the growth rate of per capita personal income.

Information from Statistics Canada shows that our economy in the 1970s also slumped to tenth and last place in:

- the rate of new residential construction;
- the growth rate of mining output;
- the growth rate of value added per capita;
- the growth rate of new public investment.

Unfortunately, the litany goes on:

> Between 1970 and 1978 — the latest year for which we have figures — Ontario's growth in business investment was 20.5 per cent below the Canadian average.
>
> Between 1970 and 1979 Ontario's share of private investment in Canada dropped by more than 17 per cent.

There has been an undeniable weakening in the business community's confidence in Ontario as a place to invest in the future. And it's important for us to understand that the investment dollars we're losing are not all going to Alberta; they're going to all parts of this country, east and west, where our fellow Canadians look to the future with the same confidence that we used to feel in Ontario.

Now, of course, in terms of total dollars, our economy still grows by more than Saskatchewan's or Prince Edward Island's because we have a bigger base. But you know, as businessmen and economists, that it's not gross profit that counts as much as return on investment. You know that if you consistently grow more slowly than all the other provinces through the entire decade of the 1970s — then you will eventually be overtaken in the marketplace.

Should a company like Stelco accept a lower rate of growth than its competitors, simply because it's the biggest steel company in Canada? Of course not. If the president adopted that approach, he would surely be replaced. That type of complacency is exactly the attitude that turns winners into losers.

It's also important to dispel the notion that Ontario's particularly bad economic performance is tied exclusively, or even primarily, to the ailing auto industry. The evidence that I have cited all relates to a period of time when the auto industry was performing well. In 1978, for instance, we actually had a trade surplus in manufactured cars under the Auto Pact; the industry was operating at full capacity and hiring extra people for additional shifts.

When we look at the challenges facing Ontario's economy, it is not fruitful, therefore, to narrow our gaze to one industry. We should also look, for instance, at our lagging mining sector and at other manufacturing industries. We should look at mining machinery, an industry where we used to produce most of our own needs, but in which we ran up a trade deficit of $250 million in 1979 alone.

According to Ontario's minister of Industry and Tourism, the entire area of machinery manufacture is a problem in Ontario. Just last month he told us that:

> "Today, next to Iceland, Canada has the poorest machinery trade performance of all 24 OECD countries."

And our performance is getting worse. Whereas we imported only 50 per cent of our machinery needs in 1970, we were importing 70 per cent of those needs by 1978.

This pattern of decline has been apparent for a long time. It has not just suddenly appeared. It has been under way for at least a decade. Certainly many Ontarians have not only seen the signs of decline but have even decided to leave this province, to look for their opportunities and their future somewhere else. Last year alone, more than 30,000 Ontarians left this province for western Canada. That means that on average, someone is leaving Ontario every 17 minutes. I am sure that these people, like me, are not particularly sympathetic to the cry of "how were we to know" from the same minister of Industry and Tourism.

Nor do I believe that we can excuse our poor performance simply by referring to the difficulties of a manufacturing-based economy during a time of economic upheaval and particularly rising energy prices.

First, unlike almost every other manufacturing economy, we in Ontario are still fortunate enough to be paying substantially less than world price for our oil.

But even more significant, during the same period that Ontario's economy was in decline, the manufacturing-based economy of Japan grew to be the strongest in the world.

My comments to this point all relate to Ontario's first priority. Clearly we must start by admitting that our economy is not as strong as it should be, or as it could be. We must resist the excuses and the rationalizations and the too-easy explanations of our economic problems. We must squarely face the challenges to our economic future.

Once we have admitted the problems, once we have seen the challenges, let's look at the priorities that I believe Ontario must establish in order to stop and reverse the decline in our economy. These are priorities that we have outlined before and that we have presented in our proposals for an industrial strategy for Ontario, which we released two years ago; these are not last-minute pre-election promises. They would significantly change the direction of Ontario's economy, not simply throw money at the problems. I do not intend to be unduly partisan, but I do sincerely believe that my approach, our approach to Ontario's economic future is markedly different from that of the present government in Ontario.

In brief, I believe that we must set five priorities — once we've admitted the problems — if we are to restore Ontario's economy to its position of strength and leadership in Canada.

> We must focus on our manufacturing sector, which is our best creator of wealth.
>
> We must especially encourage small- and medium-sized businesses, so that they can grow to become big businesses and make our economy grow as they do.
>
> We must also focus on Canadian-owned businesses, which have the potential, the mandate, and the desire to export their products and, by so doing, to reduce the deficit in our balance of payments.
>
> We must determine which industries have the best potential for growth and give special help to them so that they can realize that potential.
>
> We must nurture enterprises and industries where research and development play an important role, since our well-educated population may be one of our strongest competitive advantages.

Setting priorities means making choices. Of course, the government cannot — must not — make those choices alone. But the government must lead. And those of us in the government must be prepared to make those choices meaningful, by allocating scarce financial and advisory resources to fulfill our priorities.

Let's look more carefully at the priorities that I would set for Ontario's economy, beginning with manufacturing.

The manufacturing sector is critical to Ontario's future prosperity. As Alberta has oil, British Columbia forestry, and the Atlantic provinces have the fisheries, so Ontario's potential lies in its manufacturing base. It has been the source of our economic well-being in the past and it must be the source of our economic renewal today. It is a key producer of wealth and of jobs and has important interrelationships with both the resource and service sectors.

As our manufacturing industries declined during the 1970s, so went the capacity to add value in our resource industries and the possibility of a viable service sector, where one-and-a-half jobs are lost for each manufacturing job that disappears.

With regard to our natural resources, it's clear that we have simply relied too long and too much on exporting them in a raw, or only slightly processed, form. In the resource sector one dollar's worth of products embodies about 6.5 cents worth of wages, while one dollar's worth of manufacturing products generates 20 cents to 35 cents in wages. This means that we have been sacrificing anywhere from two to five jobs in the manufacturing sector for every job that we created by exporting our resources. Manufacturing is critical to Ontario in its own right. It is also the pivotal partner in the realization of the potential of the other sectors of our economy.

Industrial priorities for Ontario must also focus on Canadian-owned businesses with special emphasis on small- and medium-sized enterprises. These firms are the major source of new jobs, of new technology, and of innovation in Ontario. These businesses are flexible and are able to adapt quickly to changes in the marketplace. Their economic objectives also tend to coincide with the best interests of this country and this province.

In the case of most foreign-owned firms, their primary purpose is to serve the Canadian domestic market. They are rarely interested in the development of the Canadian market overseas, in making Canadian industry more efficient or globally competitive. This focus of the domestic market usually means that less research and development is undertaken by multinational corporations here. They provide fewer employ-

ment opportunities here in the managerial and scientific professions. And, of course, when economic times are tough, as they are today, there is a tendency for some multinationals to retrench and to consolidate operations at the home base.

To be clear, I am not attacking multinational corporations. They are here at our invitation and play by rules that we Canadians established. They have contributed much to our economy and will continue to do so. A few have even developed an export orientation and have gained a worldwide marketing mandate from their parent firms, based on an independent R&D capacity.

But to talk about Ontario's manufacturing future without reference to the special situation brought about by our high degree of foreign ownership is to ignore one of the most important realities of economic life in Ontario. It would be like discussing Canadian culture without considering the effects of American television.

If we accept that we should give priority to growth industries then it follows that the manufacturing industries of Ontario must develop closer working relationships with the growth sectors of the other provinces and regions of Canada: with the oil producers in Alberta, the forestry industry in British Columbia, and the fisheries in Atlantic Canada. These resource-based industries will generate enormous demands for machinery and equipment during the 1980s, and if we begin to work together to fulfill those needs from within, as other nations do as a matter of course, all regions of Canada will benefit from the economic spinoffs.

We also have the opportunity to develop machinery and equipment based on our own unique requirements and on developing technologies that can be marketed worldwide. To take advantage of this splendid opportunity we needn't be dependent on the decisions of foreign firms. We can work together, within Canadian industry, to develop world-class processes and products.

Within Ontario's own borders, alternate and renewable energy technologies offer great promise. Of course, our entire manufacturing sector in Ontario could benefit from a secure supply of competitively priced sources of energy—from fuel alcohol to recaptured heat from nuclear plants to hydrogen. We have the resources and the expertise — here and now in Ontario — to become front-runners in this field.

As a function of developing industrial priorities, I believe that we — business and government leaders — must decide which industries are, or have the potential to be, the source of Ontario's manufacturing strength.

Undoubtedly within every industry there are firms with the potential to be strong both domestically and internationally, and certainly those firms should in no way be impeded. But in this country and in this province we cannot hope to win all the medals in the economic Olympics; we have to specialize, choose our events, and devote our limited resources to becoming champions in those events.

At present I see great potential in the following:

(1) the aerospace industry, especially with the growth of commuter airline services;
(2) telecommunications, because of developments in satellite communications and cable distribution;
(3) computers, with the great potential for increased application of microprocessors;
(4) systems electronics;
(5) industrial machinery, especially related to resource processing and pollution abatement;
(6) the auto parts industry. If we are to regain a degree of prominence in this sector we must move quickly into the development of the new lightweight materials that are just now starting to appear in order to meet tougher energy efficiency requirements.

Let me be clear about this: this list is by no means all-encompassing. Nor is it firm and final. As I have said, I believe the process of setting priorities must be a joint industry-government exercise. These are the suggestions that I offer to begin the process.

Developing industrial priorities for Ontario is a complex and difficult task but it may also be the most exciting economic challenge that we have faced in this province in this century. I see it as a challenge that we must face and a challenge that we can meet.

I do not accept — not for a moment — that once-proud Ontario must continue to be tenth and last in growth among the provinces of Canada. I know — and you know—that we have the potential to be the leader in Canada again.

We have what it takes in this province to set our own economic future, to reverse our decline of the past decade. We have vast natural resources, forests and minerals and farmland. We have talented and hardworking people. We still have the largest industrial base in Canada. And, perhaps most important, the people of this province have the experience, the vigor, and the desire to make Ontario strong again.

If we admit to our problems, if we reject the excuses, and if we are prepared to make the tough choices — to set our priorities — then I know that we can restore a mood of confidence in Ontario's future, we can restore a sense of pride in our performance. I know that we can — and I believe that we will — build a bright economic future for the people of Ontario, for ourselves and for our children.

The Role of Mining in Ontario

Malcolm A. Taschereau

Malcolm Taschereau is president and chief executive officer, Dome Mines Limited, Toronto. A graduate of mining from McGill University, he spent many years in the mining industry before assuming his present position in 1978. Mr. Taschereau is chairman of Campbell Red Lake Mines Limited and Sigma Mines (Quebec) Limited and president of the Ontario Mining Association.

Mining in Ontario is essential to a strong economy in central Canada. It is evident that mining is a cornerstone of our economy when one considers the following statistics: Ontario accounts for almost one-third of the country's mineral production at $4.6 billion in 1980; this represents a new record and is significantly above the previous year's production total of $3.2 billion.

Ontario produces 40 per cent of Canada's metallic minerals from about 56 producing mines. Seventy per cent of Ontario's mining production is shipped to foreign markets in more than 100 countries; these exports constitute 20 per cent of the province's total exports. Ontario is the leading Canadian producer of nickel, uranium, zinc, gold, silver, and cobalt.

Mining has always played a significant role in Ontario and is responsible for the habitation of our north. One of the first mines, Inco in Salisbury, dates back to 1902. Then came the silver rush in 1903 in the Haileybury-Cobalt area. Within the next few years mining claims were staked in the Porcupine-Timmins area that led to the establishment of three of the most famous gold mines: Dome, Hollinger, and McIntyre.

The war years were difficult ones for the mining industry due to shortage of manpower, but following World War II the mining sector of Ontario underwent a period of great expansion as mineral demand around the world soared.

From the mid-1940s till the early 1960s the mining industry expanded at an average growth rate of about eight per cent per year. During this time there was a favorable market opportunities, although industry growth slowed in the late 1960s it continued to contribute strongly to Ontario's growing economy.

The past 10 years, however, have been difficult ones for the mining sector. The industry was affected by the mid-1970 economic weakness when mineral prices and markets slackened, and also by serious inflation and the energy crisis. Further, the industry was subjected to unco-ordinated and rapid changes in taxes that dramatically complicated the tax structure in Canada and escalated the industry's tax growth. The result of this was a heavy cut into industry cash-flow and a shaken confidence in the mining sector.

Despite the progress since the federal-provincial review of resource taxation in 1978, the total tax rate for mining companies remains substantially higher than that for manufacturing. In particular, I am still disturbed at the system of graduated mining tax rates in Ontario whereby the tax rate increases with level of total profit, not profitability. This tends to penalize the larger producers without accounting for the size and investment of the operation.

I continue to hope for modifications to this system as large companies are generally very effective and should not be discouraged. Some other provinces have recognized this, as well as the cyclical nature of the mining industry, and as a result have established reasonable flat rates of tax that provide a more equitable rate of return on the investment in mining, commensurate with the risk.

I am going to touch on three questions. One, how probable is the creation of a "Petrocan" in the mining industry? Two, what effect does the current exchange rate have on the resource sector? Three, is competition from less developed countries eroding the traditional markets for Canadian resources?

First, with respect to the creation of a "Petrocan," I was very pleased to note the comments of the Hon. Judy Erola, Minister of State for Mines, in a recent address to the Alberta Chamber of Resources:

> "The mining or mineral industry is not comparable to the oil and gas industry in terms of Canadian ownership and control. Fully 62 per cent of the industry's assets are Canadian-controlled and I believe this represents a very healthy balance of Canadian and valued foreign capital."

Notwithstanding the comments by the minister, I would like to emphasize that I feel there is a danger that elements of the national energy program could eventually be applied to the mining sector. I would like to stress that petroleum and mining industries are two totally different industries in terms of the nature of the commodities produced, the process of exploration and development, the pricing system, the level of profitability, the pattern of ownership and control, to name but a few.

I feel strongly that the unique nature of each industry requires separate policy consideration by federal and provincial governments. It cannot be blindly assumed that policies suitable for one sector are appropriate in the other. Policy development for the petroleum sector is required to have an inward-looking domestic orientation to deal with the problems of supply sufficiency. In contrast, policy for the mining sector is called upon to adopt an orientation that reflects an international flavor, consistent with Canada's extensive resource base and our dependence on export markets.

We should not forget that the short-lived high metal prices of the mid-1960s led to the creation of provincial "Petrocans" and the belief that the mining industry was making windfall profits. The result of this was the excessive taxation that I referred to earlier. The ensuing instability contributed to a decline in exploration and development from which we have only recently recovered. I hope that this experience does not have to be repeated.

As to the second question, the decline in the value of the Canadian dollar has been critical to maintaining the competitiveness of our mining industry at a time when costs are escalating rapidly. Our mineral products have indeed been made more attractive to foreign buyers because of the weakened dollar, but in the long run it must be realized that using a devalued dollar to maintain our competitive edge is really false economy.

Further, our competitiveness is continually changing and the current exchange rate is only one of a range of variables that affects our position. The state of the

mining industry is also strongly affected by taxation policy, technology, environmental control, the legislative climate and, of course, market conditions.

The current exchange rate can also put the mining sector at a disadvantage. When a firm is forced to buy equipment, services, and technology outside the country the purchase must be made with an 82-cent dollar. We ourselves have found this to be true in our evaluation of the Detour Lake gold prospect.

Finally, it must be noted that high interest rates have erased many of the gains that have been produced by the favorable exchange rate.

The third question is whether competition from developing countries is eroding the traditional markets for Canadian resources. Canada's and Ontario's mineral industry is extremely dependent on foreign markets. Recall the statistics that I mentioned earlier: 70 per cent of our mining production is exported. Indeed, I believe that Canada may be the largest mineral trader in the world.

While mineral demand is growing, it is not growing at anywhere near the rate at which it grew during the past 20 years. World growth rates in minerals for this decade are not expected to average any more than two or two-and-one-half per cent per year.

Third-world countries depend on their mineral production to produce hard currency, which is necessary to support their economies. In times of economic downturn it becomes very painful to their economic situation if they have to cut back production. Consequently, there is a tendency for them to keep producing regardless of market circumstances.

Further, sympathy in the industrialized world over the plight of the developing countries has led to the implementation of schemes to provide preferential access to minerals from developing countries to industrialized markets. Preferred trade access has been granted by the EEC to 53 African and Caribbean countries under the LOME agreement and by the United States to certain countries under the general system of preferences. These strategies can jeopardize the position of the Canadian mineral industry in world markets.

A final point on this is that with governments directly involved in the mining industry of developing countries, the traditional economies by which we operate can be severely distorted in other countries. Once it becomes a matter of national policy to produce a certain commodity, governments may strive at all costs to keep operations going, sometimes out of the sheer need for political survival.

What does the future hold for Ontario's mining sector? During the 1980s the nation will have to look increasingly at the mineral-resource sector as the source of export earnings with which to counterbalance our growing deficit position in energy. John Bonus of the Mining Association of Canada states:

"In the short term, there is little reason for optimism that 1981 will be a good year for the mining industry. Certainly, the Canadian economic scene does not encourage bullishness in the immediate future, and world economic indicators as a whole are far from favorable. Industry's performance in the early part of the year will reflect the continuing (and some say worsening) state of the Canadian and other economies.

"Some observers expect that by late 1981, western economies will emerge from the doldrums, whereas others feel it will be well into 1982 before there is significant improvement. When recovery occurs, the upswing in several sectors of Canadian mining could be quite rapid, partly because of short-term supply shortages if demand picks up sharply. In such a situation, prices could also increase quickly for zinc, copper, and lead.

"For other commodities, the picture is mixed. Nickel and molybdenum are currently weak and their recovery may take some time. Gold is probably the brightest spot as several new mines and reactivated old ones start production in response to previous increases in metal prices. Iron ore demand remains weak, especially in export markets where overseas economies have not been strong. Asbestos is similarly affected and the long-term future for various asbestos products is clouded by environmental factors. Uranium prices and markets remain soft in view of a slowdown in new nuclear power generation programs, but exploration and development continue to meet the expected long-term opportunities.

"Once economic recovery occurs, the longer-term fortunes of Canadian mining and Ontario mining look bright indeed. Ontario, with its attractive natural resource base, should be in a position to reap rewards. A review of industry plans indicates there are already a number of significant projects ready to move ahead when economic and socio-political considerations allow."

The industry will not, of course, be without its problems. Manpower shortages will be of major proportions in the future. It will be necessary for industry and government to cooperate in an effort to attract and train qualified manpower for the mines of northern Ontario.

Energy is another challenge that we will have to surmount. Two or three years ago energy made up 15 per cent to 20 per cent of the cost of producing a pound of lead, copper, or zinc. Oil prices have more than doubled since then. To remain competitive, therefore, high productivity will be essential, and this in turn means high capital investment and sophisticated technology.

Exploration will also be necessary if Ontario's mining industry is to maximize its contribution to Canada's economy. Our province has been very well explored, and most of the easily discovered deposits have been found. We must, therefore, search in more remote areas and at much greater depths. These factors mean that large outlays of very high-risk capital are required, and the risks are not confined to exploration.

It is necessary also to commit substantial amounts of capital on the basis of limited information regarding the extent and grade of ore and with the knowledge that forecasts of total capital costs are frequently unreliable because of unexpected adverse water or rock problems and the effects of inflation.

Finally, we will expect government policies toward the industry, especially in the critical area of tax, to continue to take a long-term view of the industry's profitability, to realize that the industry is cyclical and that there must be stability and certainty in those rates over a longer period of time so that companies can plan effectively. It is unfortunate that people become disturbed if profits increase yet do not exhibit that same concern when profits fall.

I believe that the future is promising. We still have thousands of miles of Precambrian shield that can be explored. The mining sector, if given the incentive to search in the more remote areas and at much greater depths and to develop its resources, has the potential to strengthen the economy of Ontario and Canada.

The Canadian Auto Industry in World Markets

W. Robert Waugh

Robert Waugh, vice-president and finance manager, General Motors of Canada Limited, Oshawa has been with General Motors since 1941. He became comptroller of General Motors' General Foundry Division in Michigan and in 1969 was named assistant comptroller in Detroit. Mr. Waugh received his present appointment in 1974 and is a director of the Financial Executive Institute and chairman of the industry, trade and commerce committee of The Canadian Chamber of Commerce.

Ontario has a strong manufacturing base supported by a well developed infrastructure. It has the natural resources for the long-range energy source: electricity. It has a competent and competitive work force and a tradition of sound government/business relations. These are particularly important at this time when our industrial world is undergoing a historic transformation.

For some years regional and national trade have been evolving toward global trade and, just as in their day the guilds were supplanted by national industries, today we are reaching the state in which continents are competing for world markets.

The pace of this change is rapid and, therefore, confusing. It will not wait while we focus on area rivalries or competition with only our traditional trading partners. Discussions of our role in Canada and in North America are important, but the sooner we complete them the sooner we will be able to concentrate our efforts on the world industry and the world markets of the future.

Let me expand on this by reference to the automotive industry. Our Canadian automotive industry is still enjoying a good market. General Motors has just completed its second best Canadian sales year in history and is predicting as good a year or better for 1981. The rise of interest rates has put a question mark as to the exact timing of the upturn in the U.S. economy and the automotive market. That upturn is coming. Our plants will soon begin to benefit from it. So confident are we, in fact, that we are continuing to operate our plants at capacity rates, taking days out as necessary so that we have our plants and our competent work force ready for the coming period of higher demand.

The longer term prospects are even more encouraging. The market in Canada is expected to grow during the next five years at a higher rate than that of the United States. The overseas market is expected to grow at an even greater rate. With the impact of higher energy costs the products demanded by all these markets are more clearly defined than ever before.

General Motors currently enjoys more than 21 per cent of free-world automotive sales and intends to continue as the leader. To ensure this, we are looking past the present cycle and our shareholders are investing huge sums (beyond current cash flow) so as to be in position to meet the demands of the mid-eighties.

A significant share of this is being invested in Ontario, a fact that underlies the opportunity for automotive suppliers and others who service or depend on the automobile industry. All over the world the realities of logistics costs dictate that many parts and component operations be located within economic reach of the assembly plants. Ontario shares with the mid-western states the world's heaviest concentration of both assembly and component capacity.

Traditionally the Canadian jobs generated directly by General Motors have divided about evenly three ways among in-house manufacturing, independent suppliers, and retailers. The tremendous demand for investment and increased need for innovation make it important that the independent suppliers' share continues or even increases. The assemblers will continue healthy only if they have healthy supplier support.

This total retooling will mean, moreover, that the North American industry will have the most modern facilities in the world, another reason for optimism as to our ability to compete and our projections of continued growth during the 1980s.

However, it is important that we recognize a possible development that could limit our growth. The automotive industry is in a period of world over-capacity, over-capacity that may exist even as the markets in North America, Europe, and Asia resume growth levels.

The European and, more important to us, the North American industries can restructure as planned only if the still expanding capacity in Japan is used prudently. Most of the industrialized countries are anticipating this problem and are restricting imports while their own industries restructure. France has established a three-per-cent limit. Italy allows a few thousand vehicles and the United Kingdom is requiring the Japanese to assemble locally. West Germany and the Benelux countries are reported to have negotiated limits and the Latin American countries all impose restrictions.

We need to ensure that the excess production diverted from these countries not come to North America, where any major further substitution of imports for domestic production is bound to adversely affect the funding of new investment and the timing of new products. There are already signs that some of the volume is being diverted into Canada and a strategy is evidenced by the fact that the Japanese assemblers are now pricing identical models for hundreds of dollars more profit in the United States than their Canadian prices would generate.

We should not be beguiled by the argument that the importers create jobs. Certainly importers build substantial retail organizations, but those in the long run are not gains since they represent simply a shift within overall Canadian automotive retail activity. The loss in jobs, if import volume is allowed to increase, will be in the Canadian plants, where components and vehicles are manufactured and assembled.

Nor should we be misled by the argument that Canada enjoys a favorable balance of trade with Japan. Canada's willingness to export natural resources need not be accompanied by a willingness to export manufacturing jobs.

We are seeing two different strategies. The North American and European manufacturers are placing investment in facilities and in jobs in the world markets. The Japanese are seeking to concentrate investment and jobs in their home base.

In 1980 General Motors of Canada spent more than $700 million equipping and tooling our plants, a level of spending planned to continue for three or four years. Profits dropped to $55 million, or six-tenths of a per cent of sales — obviously an inadequate level in view of our future borrowing program. Our investment plans

would not survive a raid designed to permanently alter the Canadian market.

General Motors' planning continues to assume that Canada will step up to this challenge with insistence that those who sell here invest here.

Meanwhile, the current media obsession with the 16-year-old Canada/U.S. automotive trade pact diverts our attention from the challenges and opportunities that we should be addressing. In the fourth quarter of 1980 Canada's world trade arising from the auto pact produced a favorable balance of more than $100 million while the automotive trade not related to the auto pact showed an unfavorable balance of about $375 million.

More than $300 million of this unfavorable balance was with Japan, to whom Canada shipped only $2 million worth of automotive products. Compared with that $2 million of automotive export to Japan and the $35 million to Europe, Canadians exported auto-pact-related goods to the tune of $3.5 billion in the fourth quarter alone. That represents a lot of jobs.

We have been focusing on the hole in one of the doughnuts rather than on the comparative size of each doughnut.

Certainly Ontario must continue to compete with other parts of Canada as well as with the United States, but that competition will be best served if we concentrate more attention on competing with the overseas economies. One cannot help but wonder if Canada would not have continued to be the leader in world hockey if it had focused its attention on the emerging world competition instead of on the national hockey league. The parallel in the automobile industry seems obvious.

Relative productivity is a concern and it is made up of many elements. A recent study found that a U.S.-produced vehicle costs $1,000 to $1,500 more than a comparable Japanese model. The study went on to conclude that this differential divides three ways: the difference in wage costs, the difference in management systems and production procedures, and the difference in government regulation and restrictions.

Certainly, then, the steps that we must take to win in this world competition are obvious. Each of us — management, labor, government — must be ready to compete with our overseas counterparts.

Investors are taking steps in this direction with record spending for tooling and facilities and acceptance of lower dividends. They are betting on the future.

Labor in recent negotiations has shown that it also recognizes the need to compete. The government is reviewing its role in legislation and regulation.

With regard to regulation, it is interesting to contemplate the outcry that would have been heard in North America if Ford or General Motors had purchased American Motors. Yet the very anti-trust laws that probably would have prevented such action were not seriously brought forward when the French government and Renault purchased control. North American business must be able to compete on equal terms with overseas competitors.

Each of the three major partners in the Canadian economy recognizes their parallel interests, and as they set out to compete with their overseas counterparts closer relationships will develop. Labor, in return for progress in improving productivity and cost competitiveness, can expect rewards by mechanisms such as profit sharing or others yet to be devised.

The government, ensuring that its laws, taxes, grants, and regulatory costs are competitive, can expect a strengthened economy and an even more open and mutually supportive relationship with business.

In Ontario I believe that all three groups have the will and the capability to compete worldwide and the industrial base in place from which to win that competition.